Annual Report
1999

Rayonier

**Highly Productive
Resources Supported
by Technology**

Rayonier is a global supplier of timber, specialty pulps and wood products with customers in 60 countries. The company has 2.4 million acres of timberland in the U.S. and New Zealand.

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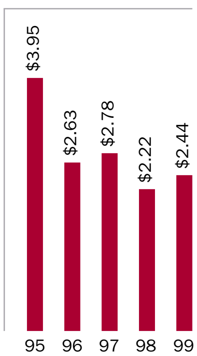
Financial Highlights

Millions, except per share amounts	**1999**	1998	% change
Sales and Earnings			
Sales	**$ 1,036**	$ 1,009	+3%
Operating income	**136**	124	+10%
Net income	**69**	64	+8%
Financial Condition			
Total assets	**$ 2,280**	$ 1,601	+42%
Total debt	**1,136**	490	+132%
Book value	**653**	639	+2%
Cash Flow			
Cash flow from operations	**$ 217**	$ 157	+38%
Capital expenditures	**95**	95	—
EBITDA	**246**	226	+9%
Free cash flow	**121**	66	+83%
Dividends	**36**	35	+3%
Per Share			
Net income	**$ 2.44**	$ 2.22	+10%
EBITDA	**8.72**	7.90	+10%
Book value	**23.82**	23.01	+4%
Dividends	**1.29**	1.24	+4%
Performance Ratios			
Operating income to sales	**13%**	12%	
Return on equity	**11%**	10%	
Return on assets	**4%**	4%	
Debt to capital	**64%**	43%	
Debt to market capital	**46%**	28%	

1998 income was reduced by the impact of forest fires estimated at $6.2 million (22 cents per share).

Letter to Shareholders

Earnings per Share



Excludes non-recurring charges (1996) and non-recurring gains (1995, 1997)

Earnings improved as pulp and wood products markets strengthened and costs were reduced.

1999 was a watershed year for Rayonier as we took dramatic steps to reposition the company and enhance shareholder returns. Also, financial results improved due to an upturn in markets for many of our products that began in the second half of the year. Highlights of 1999 included the following:

- With our strategic purchase of nearly 1 million acres in the U.S. Southeast, we became the seventh largest private forestland owner in the U.S. with 2.2 million acres.

- After 55 years of being headquartered in the Metropolitan New York area, we made the decision to restructure and relocate our corporate offices to Jacksonville, FL. The move will not only reduce cost but also generate benefits from the synergies of being centrally located to the majority of our assets and employees.

- Net income increased 8 percent to $69 million, while earnings per share rose 10 percent to $2.44.

- We increased our dividend 16 percent to an annualized rate of $1.44 per share and repurchased 552,000 shares of our common stock for $24 million.

- We expanded our global timber reach with a management and marketing contract on 100,000 acres of forestland in Australia.

Earnings Overview

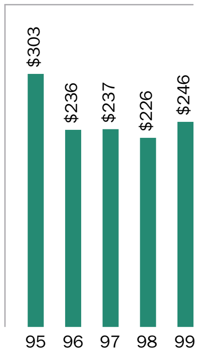
Net income was up from 1998 as market conditions for most of our products improved in the last six months of 1999. In particular, we finally began to see an upturn in prices for our specialty pulp and Asian demand strengthened for timber and wood products. Including special items in both years, 1999 net income was $69 million, or $2.44 per share, compared to $64 million, or $2.22 per share, in 1998. Sales in 1999 were $1.04 billion, $27 million higher than 1998.

Timber and Wood operating income increased to $113 million in 1999 from $102 million in 1998 and Specialty Pulp operating income was $39 million compared to $34 million in the prior year. We expect these favorable trends to continue in 2000.

A hallmark of Rayonier is our consistently strong cash flow. In 1999, EBITDA (earnings before interest, taxes, depreciation and amortization) was $246 million, or $8.72 per share, compared to $226 million, or $7.90 per share, in 1998. EBITDA from our worldwide

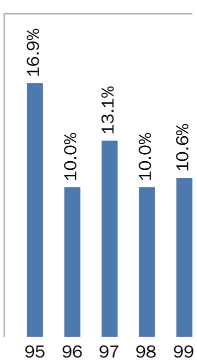
W. Lee Nutter
Chairman, President and Chief Executive Officer

EBITDA
(millions)



We improved our very strong and consistent level of cash flow, as measured by EBITDA.

Return on Equity



Excludes non-recurring charges (1996) and non-recurring gains (1995, 1997)

ROE continues to exceed the industry average.

forest resources was $145 million, or $5.13 per share. The growth in EBITDA and free cash flow reflects the benefits of our recent investments and continued focus on cost control that enabled us to repurchase shares and increase our dividend.

Repositioning the Company

Early in 1999 we took a fresh look at our company to determine how we could further improve shareholder value. With our industry struggling to reach an acceptable return on total capital and with recent consolidations, we intensified our strategic planning process and became more aggressive. We examined each of our businesses to determine what new directions should be taken to better position the company for earnings growth, with a guiding philosophy of achieving, or maintaining, critical mass in each business while generating acceptable returns. If a business does not achieve an adequate return, we determined that we would either restructure it, or exit that business. There are no “sacred cows.”

Timber Acquisition Out of that strategic process came our decision to purchase nearly 1 million acres of forestland in the Southeast U.S., most of it adjacent to our existing 854,000 acres in Florida and Georgia. This $716 million acquisition of high-quality timber, which closed in October 1999, gives us even greater participation in the most important timber market in the U.S. There, demand is fueled by more than 100 pulp and paper mills and a growing number of wood products facilities. With 1.8 million acres of highly productive timberland, we are one of the region’s premier suppliers, and intend to leverage that position to benefit our shareholders. As prudent and opportunistic buyers, we are confident that the purchase price of $733 per acre represents excellent value. Although, as is typical in the early years following a large forestland acquisition, earnings will be negatively impacted due to interest costs. Cash flow, however, is a more accurate way to measure the contribution of timber acquisitions. Due to this acquisition, we expect EBITDA in 2000 to increase $70 million to $74 million.

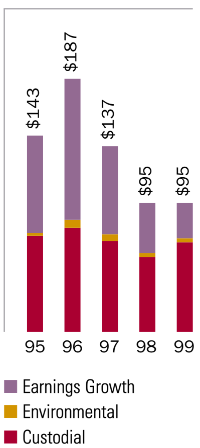
Although our debt to capital increased to 64 percent as a result of this strategic purchase, aggressive steps are under way to reduce debt in 2000 and strengthen our investment grade rating.

Corporate Headquarters Relocation Another important strategic decision was to move our corporate headquarters to Jacksonville, FL, after 55 years in the Metropolitan New York area. Being located in the Southeast U.S., where we have 75 percent of our assets and 80 percent of our employees, will allow us to achieve operational and administrative synergies while still maintaining the flexibility to oversee our other businesses in the Northwest U.S. and around the Pacific Rim.

Specialty Pulp Products Although Rayonier’s pulp business has consistently outperformed the industry due to our focus on high-value specialty niche products and markets where we are world leaders, that is not good enough. Improving our financial returns in this business segment is essential. To do so, we are committed to adding high-value products, lowering costs, and finding new ways of doing business that will enhance profitability.

In 1997 we launched a five-year profit improvement program to annually deliver $35 million to $40 million in additional pretax income. This program relies heavily on the use of information technology. After making significant strides in 1997, progress halted in 1998 as implementation of several IT projects disrupted performance. However, in 1999, those projects came on line and began to make a significant contribution to our improvement program. We

Capital Expenditures
(millions)



Tight discipline continued to hold capital spending below depreciation, depletion and amortization levels.

are now back on track and expect to reach our goal by the end of next year.

To further enhance our reputation in specialty pulp for technical excellence and product innovation and improve profitability, our R&D group is focused on developing new added-value products and customers as well as new applications for existing products. Last year, we continued to gain customer acceptance for NovaThin™, a pulp-containing material for absorbent products that are thinner yet more absorbent, supple, comfortable and discreet than existing products. We are exploring the possibility of a production and marketing joint venture to provide faster growth for this new product. Our scientists also have developed other new uses for specialized wood fibers, and we are exploring the possible commercial value of those ideas, as well.

Wood Products As part of our strategy to reposition the company and improve financial performance, we also took a hard look at acquisition of several Southeast U.S. wood products facilities. However, we decided to pass on this opportunity. The price simply exceeded the level needed to meet our financial return targets. While we are determined to grow, we will not do so at any cost.

However, with strong markets and sound underlying fundamentals, we continued to invest in our U.S. sawmills to improve efficiencies through the utilization of smaller, less costly logs. We also opportunistically bought a small sawmill in Georgia, which we are updating with new small-log technology. When it comes on line later this year it will be a modern facility at less than half the cost of building new capacity.

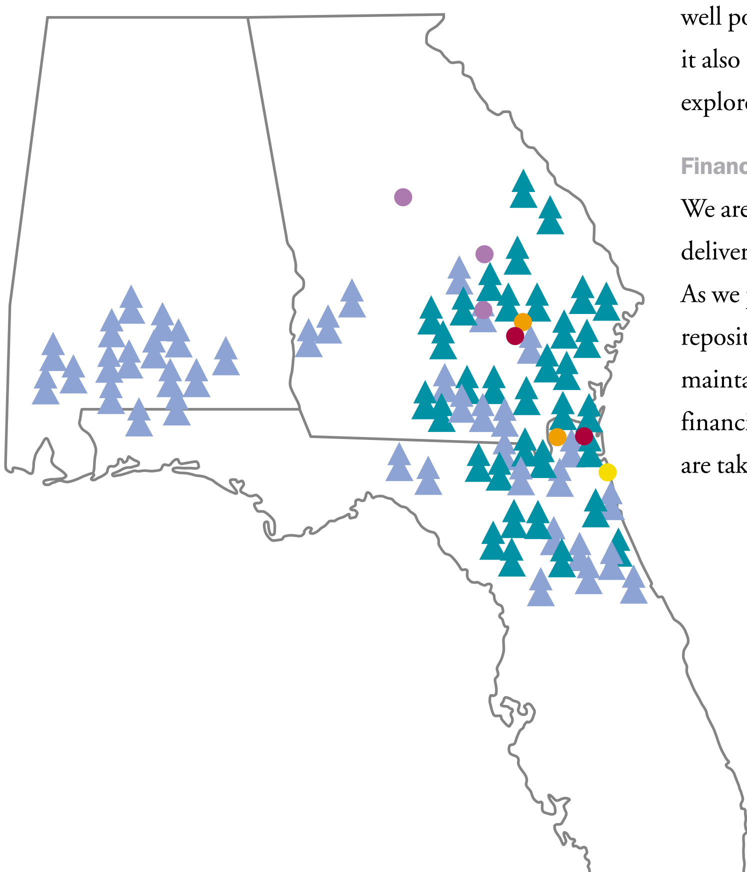
Timber Management in Australia We also continued to pursue investment opportunities in the Asia/Pacific region where we already have a large presence in New Zealand with 221,000 acres of forestland and 43,000 acres in joint ventures. As part of our alliance with GMO, an international forest investment fund manager, we entered into a management and marketing agreement for 100,000 acres of timber in Tasmania, Australia. This contract not only expands our presence in a region that is especially well positioned to serve recovering Asian markets, it also affords us a beachhead from which to explore other opportunities in Australia.

Financial Strategy

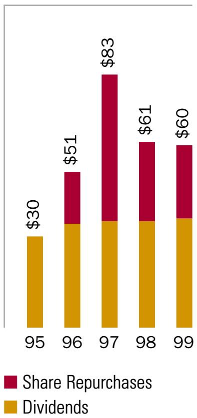
We are committed to a financial performance that delivers top quartile results for our shareholders. As we push for superior financial performance and reposition the company, we believe it prudent to maintain investment grade debt status and the financial profile that supports it. As a result, we are taking aggressive action to strengthen our

Rayonier Facilities and Timberland in the Southeast US

25,000 acres
Acquired in 1999
Pulp mills
Lumber mills
Research centers
Corporate headquarters

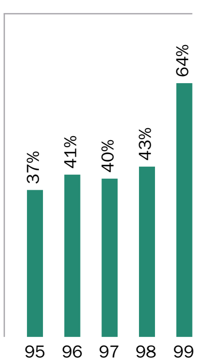


Cash Returned to Shareholders
(millions)



The dividend was increased to an annualized rate of $1.44 in December 1999.

Debt to Capital



With the purchase of the Smurfit timberlands, debt moved to 64 percent.

balance sheet and reduce debt from the levels that resulted from our strategic forestland acquisition. In the first half of 2000, we expect sales proceeds of about $50 million from the sale of non-strategic forestlands.

And, when equity markets improve, we plan to offer a 25 percent to 35 percent interest in our U.S. timberlands through either a REIT or Master Limited Partnership. Either of these vehicles will allow us to generate faster growth in our U.S. timber base, and on a self-financing basis, obtain low cost capital because of greater tax efficiency for investors, and create a public market valuation of the forestlands that will provide a better basis for valuing Rayonier equity. By retaining control and a significant majority interest in this subsidiary, Rayonier shareholders will directly benefit from the growth in the forestland business and the more transparent value of those assets.

Proceeds of the equity offering would be used to repurchase $75 million to $100 million of Rayonier shares. The remaining proceeds would be used to reduce debt.

After significant capital investments over the past several years in our manufacturing businesses to improve efficiency, quality and costs, we can now afford to be very selective with our discretionary capital and will only invest where there are unusually attractive opportunities.

2000 And Beyond

As this is written, the outlook for our company is the most favorable it has been in several years, fueled, in part, by the improving economic health of Asia where we have held a significant position for 40 years. In particular, the upturn in the pulp cycle now appears to be well under way as fluff markets continue to show the improvement that began last year. Because of the investments made in the down cycle to lower costs, we are better positioned to further improve our margins from product mix and volume enhancements.

We expect our already strong EBITDA to grow significantly, due in large part to our major forestland purchase. That cash flow will be used to maximize near term shareholder returns, while investing prudently in our businesses.

We're absolutely focused on our four basic strategies: be the premier specialty pulp supplier, *provided* we can achieve a satisfactory level of financial performance; manage our timber base for strong cash flow; pursue growth opportunities in timber and wood products; and produce top quartile financial results.

In short, Rayonier is on the move. We took aggressive actions last year to reposition the company and more are planned. We are confident that our strategies, and our actions, will enable Rayonier to build upon our consistently strong financial performance, provide superior returns to our shareholders, and enhance our reputation as one of the leading companies in the forest products industry.

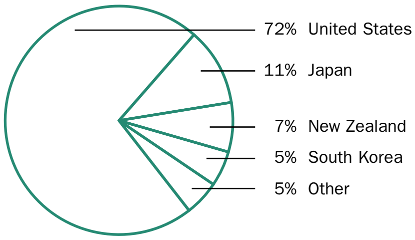
W. L. Nutter
Chairman, President and
Chief Executive Officer

March 15, 2000

Timber & Wood

Rayonier has 2.4 million acres from which it sells standing timber. We also are a leading trader of softwood logs and wood products sourced from North America and around the Pacific Rim. Additionally, we produce lumber and MDF for domestic and export markets.

Sales by Destination



Forest Resources

Rayonier sells standing timber, on an auction basis, to domestic and export markets from 2.4 million acres in the US and New Zealand. These regions have some of the highest growth rates of softwood in the world.

Forest management services*

Location	Holdings
Southeast US	1,822,000 acres of Southern pine and hardwood
Northwest US	379,000 acres of Western hemlock and Douglas fir
New Zealand	221,000 acres of primarily radiata pine

International Forest Products Trading

Rayonier is a leading world trader of softwood logs and wood products, with particular expertise in Pacific Rim markets.

Timber marketing services*

Areas of sourcing are North America and around the Pacific Rim.

Wood Products

Rayonier produces and sells lumber products to domestic and export markets; boards, decking, timbers, structural framing, pattern and dimension lumber for retailers, wood treaters, exporters, truss manufacturers and other industrial accounts.

Lumber Mills	Capacity
Baxley, GA	150,000 MBF
Swainsboro, GA	115,000 MBF
Eatonton, GA	Purchased January 2000, undergoing modernization

Our radiata-pine-based medium-density-fiberboard (MDF) plant produces Patinna™, premium grade finished board that is used in high-quality furniture, cabinetry and wall paneling.

MDF Plant	Capacity
Mataura, NZ	140,000 m^3

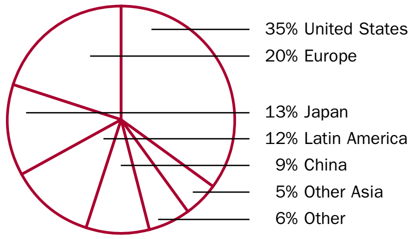
* Rayonier has long-term agreements to provide forest management and timber marketing services to timber owners of 154,000 acres in New Zealand and Australia. We also provide marketing services for owners in the Russian Far East, Alaska and British Columbia, Canada.

Specialty Pulp

Rayonier is a leading producer of chemical cellulose, fluff pulps and specialty paper pulps. Our mills have a combined annual capacity of 700,000 metric tons.

Jesup, GA	550,000 metric tons
Fernandina Beach, FL	150,000 metric tons

Sales by Destination



Chemical Cellulose

Dissolving pulps designed for exacting chemical processes: acetylation, viscose, etherification, microcrystalline cellulose and nitration

		Share of Available World Markets
Acetate Pulps	For textile fibers, cigarette filters, impact-resistant plastics, photographic film, rigid packaging	49% of acetate pulps
Viscose Pulps	For high-tenacity rayon cord (for tires, industrial belts and hoses), textile fibers, sausage casing, sponges	46% of pulp for rayon tire cord
Ethers and Microcrystalline Cellulose Pulps	For chemical intermediates used in pharmaceuticals, cosmetics, food products, textile sizing, paints, cement	52% of high-value specialty ethers and microcrystalline cellulose pulps
Nitration Pulps	For explosives, lacquers, printing inks, rocket propellants	16% of nitration pulps

Fluff Pulps	For disposable products, such as diapers, feminine care products, incontinence pads and for non-woven fabrics	11% of fluff pulps
Specialty Paper Pulps	Primary material for filter paper applications, decorative laminate papers; also special printing and writing papers	39% of high-porosity pulps
NovaThin™	Patented engineered absorbent material for use in disposable sanitary products	Emerging market

Timber

With a careful eye on stewardship, we manage timber grown on our 2.4 million acres in the U.S. and New Zealand for superior financial returns. As a member of the American Forest & Paper Association and as signatory to New Zealand's Forest Accord, we are committed to environmental excellence. We use the latest in

technology to maximize our environmental and financial performance. Much of this work is guided by scientists at our Forest Research Center in Yulee, FL. Jennifer Montgomery and Early McCall, bottom right, work to produce superior seedlings that will grow faster, with fewer defects, in a variety of soil and site conditions.

Timber

Timber: The company owns or controls 2.4 million acres of timberland in the Southeast and Northwest U.S. and throughout New Zealand. Under careful stewardship, these forestlands provide investors a growing base of earnings and cash flow.

We grow trees for sale as standing timber sold on contract primarily through a public sealed-bid auction process. Competitive bidding is designed to ensure that each tract is matched with the buyer that places the highest value on the tract's characteristics. We firmly believe that by this process we generate optimum value.

Our strategy is to maximize total return not only by continuously enhancing the value of our forestlands, but also by expanding our resource base through strategic acquisitions and joint ventures. How did we perform against these criteria in the past year?

Of course, the big news was the completion, in October, of our biggest acquisition ever: the purchase of 968,000 acres of forestland in Georgia, Florida and Alabama. With this acquisition, which cost $716 million, we became the seventh largest private forestland owner in the U.S.

We made the acquisition because of the high quality of the timber, proximity to our own holdings and the strong cash flow it will provide. Moreover, we bought it at an attractive price of $733 per acre. This compares favorably with prices of other recent Southeast timber transactions.

As part of a plan to reduce the debt incurred on the acquisition, we plan to sell $50 million in non-strategic Southeast timber parcels. With negotiations now under way, we expect to complete this program in the first half of 2000. In addition, we are identifying newly acquired timberlands that have a higher and better use for development purposes. This is part of an ongoing program we have had for several years on our own lands.

It will take time to fully categorize and determine the best use of nearly 1 million “new” acres on approximately 1,000 separate tracts, but we have made substantial progress since we made the acquisition last fall. To integrate the timberland into our superior forest management and marketing systems, our foresters are aided by sophisticated analysis and measurement tools in addition to a strong research staff.

One tool we use extensively is the Geographic Information System. It provides our foresters with a way to map geographic and biological characteristics of an area and to track forest activities, such as fertilization and planting. We integrate this information with field data, such as soil and site characteristics, and with models that predict growth and yield. As a result, we are able to optimize our harvest patterns and financial returns.

Also, we use the data to better understand and apply environmental requirements like establishing wildlife management zones, streamside protection buffers and designing spatial harvest patterns.

Our worldwide reputation for returning higher values from forestland has brought us additional business: managing forestlands for others on a fee basis.

During the year, we entered into a joint arrangement with GMO Renewable Resources, a Boston-based investment firm, and Forestry Tasmania, a state-owned company in Australia, to manage and market wood from a 100,000-acre forest estate owned by the two parties. It builds on our forest management expertise and provides a platform in Australia from which to seek additional opportunities. Along with previous management agreements in New Zealand, we now provide forest management services on 154,000 acres of joint venture-owned timber in Australia and New Zealand.

Wood Products

Sophisticated information technology systems in our wood products facilities allow us to efficiently produce a wide range of high-quality lumber and medium-density fiberboard for domestic and international markets and to respond quickly to ever-changing market conditions and customer expectations. Lumber shipped to the Caribbean, for example,

must be cut in different sizes to meet each country's requirements. Tags on finished lumber packs contain bar codes used for inventory and quality control purposes. The tags "fingerprint" each pack with data on the mill, date, shift and employee responsible. Customers may scan the bar code into their own inventory system for tracking.

Wood products

Wood Products: Our Wood Products business comprises lumber manufacturing facilities at Baxley, Swainsboro and Eatonton, GA, a medium-density-fiberboard (MDF) plant at Matura, New Zealand, and a trading group that supplies logs and wood products worldwide.

Southern yellow pine-manufactured lumber is sold to domestic and international buyers for housing and commercial construction. Our lumber mills are modern, highly flexible facilities well suited to produce a wide range of high-value lumber products.

Radiata pine MDF is a paneling product prized by our customers for its light, bright color, the wide range of thicknesses we provide and its high quality. This New Zealand product is sold to manufacturers who use it in high-value furniture, cabinetry, wall paneling and decorative doors.

Our goals in Wood Products are to be a premier supplier and to keep our costs low with modern and efficient plants. We pursue growth opportunities where they will truly add to the value of the company. How did we perform against these goals in 1999?

We completed a $14 million addition at Swainsboro that added lumber drying and finishing facilities and lowered our manufacturing cost. In addition, enhanced processing controls at Swainsboro and Baxley enable us to keep a closer watch on the quality of the finished product.

Investments like these have improved quality and increased lumber production by 36 percent since 1995.

We also purchased a small lumber mill at Eatonton in early 2000 and began planning an upgrade of the facility. The mill is currently not operating while we install new small-log technology to increase recovery and production. The $5 million cost of the upgrade is less than half of the cost of building a new mill of the same capacity.

The technology of handling small logs has advanced to the point where we can extract more product from each log and achieve higher throughput. By utilizing smaller sizes, we can recover more value from lower-cost logs that formerly were sold only for their fiber value.

Small-log facilities, such as the rebuilt Eatonton mill, will help our timber sales because they will add to the demand for small logs and make our procurement activities more efficient because they will maximize the value of the timber we buy.

We also made improvements in our marketing capabilities. We expanded our business in the Caribbean by making sales to customers in countries we had not sold into before. We provide customers in that part of the world with smaller boards for roofing and floor joists and larger timbers for exposed beams.

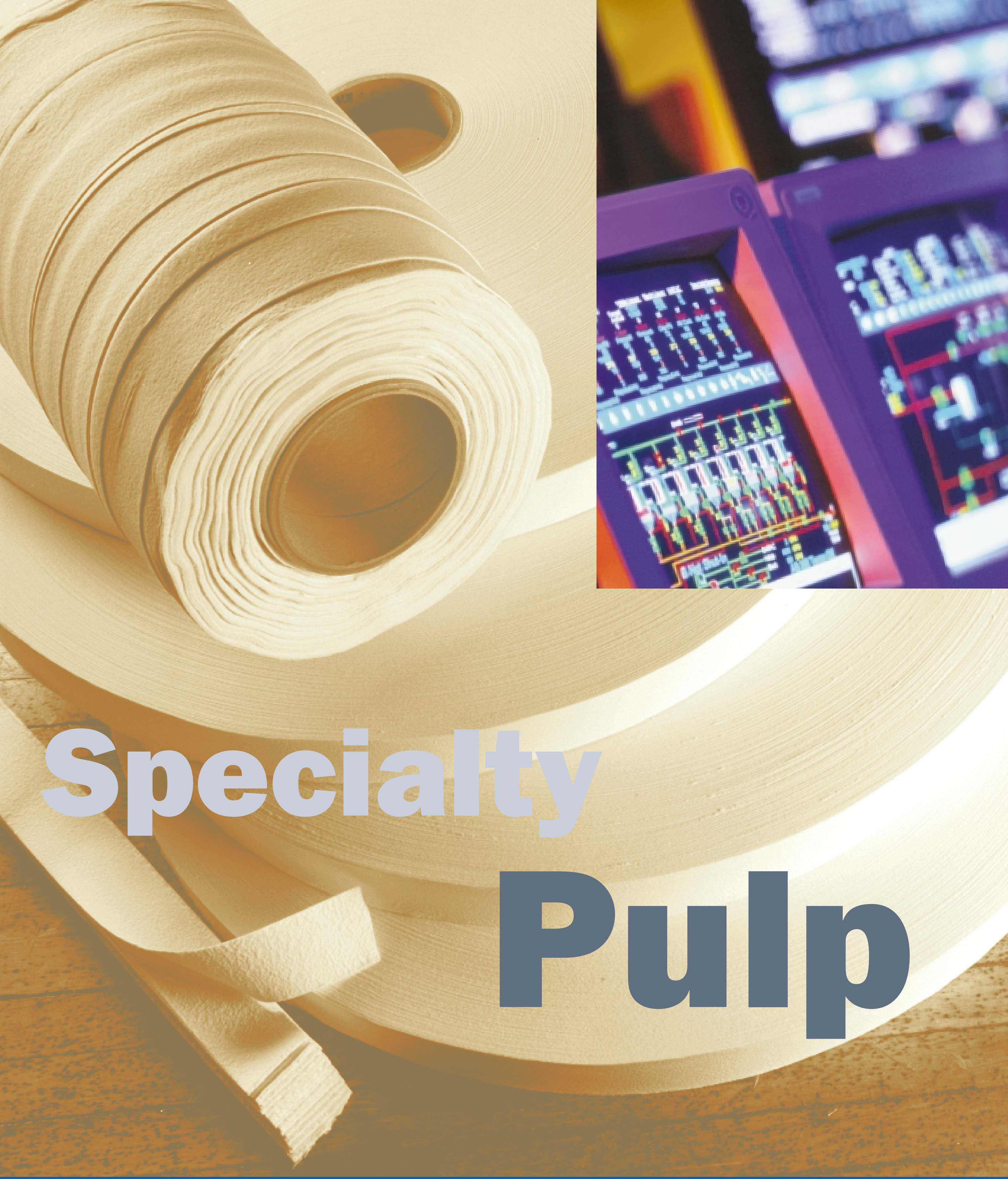
Domestically, we also expanded our market and increased our margins by selling to more retail lumber dealers in Georgia and Florida. At the same time, we continued to serve major national retailers that purchase in large quantities.

In New Zealand, continuous improvement in operations and markets has led to a dramatic turnaround in the financial performance of the MDF plant, which opened in 1997 during the depths of the Asian financial crisis.

We benefited from both technological improvements and expansion into higher-value markets. Our Patinna™ MDF board is recognized by customers as a premier quality product and gained even wider acceptance during the year. MDF sales were expanded beyond Asia and Australia and the product is in demand with customers as far away as the U.S. and Europe.

The plant is now producing at an annual rate that is 12 percent over its rated capacity of 140,000 cubic meters.

These lumber and MDF operations represent a growing part of our business. Over the past five years revenues have grown from 7 percent to 12 percent of total sales.



Specialty Pulp

At our pulp mills, wood chips are processed into highly purified cellulose, some of which is used to manufacture the company's new NovaThin™ product line that is setting a new standard for engineered absorbent materials. Because our specialty pulps must meet stringent customer specifications and quality criteria, information technology

is critical to our success. Researchers like Mark Murguia, Ph.D., bottom right, work to improve not only our own processes and products, but those of our customers as well. Using a high-performance liquid chromatograph, we provide molecular data to acetate customers to assist them in further enhancing their products.

Specialty pulp

Specialty Pulp Products: Our two mills in Georgia and Florida have an annual capacity of 700,000 tons of specialty pulp, approximately two-thirds of which is sold to customers outside of the U.S.

We produce two principal kinds of pulp products. Chemical cellulose is highly refined pulp, much purer than commodity grade and used in products as diverse as pharmaceuticals, textiles, filters and film. Our fluff and specialty paper pulps are used in disposable diapers and pads, feminine care products, laminates and fine papers.

Approximately 95 percent of our production is aimed at the top 13 percent, by value, of the world's pulp market. To the investor this means higher profitability over the course of time and more consistent financial performance.

Our goal is to enhance our financial performance and strengthen our position as the premier specialty pulp supplier. To accomplish this, we must improve the efficiency of our operations, develop the next generation of specialty products and attract new customers. How have we performed?

We are now three years into a five-year program to improve operating profit by $35 million to $40 million annually. Our target excludes fluctuations in the pricing of pulp and raw material supplies. To date, we have captured 60 percent of the goal. We are on target but have more to achieve.

With our emphasis and investment in information technology and process automation we are well on our way. We have now automated, for example, all 28 digesters at the Jesup Mill. Completion of this task in the past year was especially critical to lowering the cost of producing chemical cellulose.

Also at Jesup we continued our program to improve process control. We have now streamlined our raw materials handling systems.

By replacing on-site log handling and chipping with satellite chip plants, we tripled the geographic radius for procuring wood, thereby lowering our wood costs, our largest manufacturing expense. By modernizing chip handling capability at Jesup, we lowered costs further, and improved quality.

At Fernandina, we also have been investing in information technology and automation. Among the many improvements is a better digester control system. This additional flexibility enabled Fernandina to produce fluff pulp, an entirely new product for the mill. An innovative quality management system, developed at the mill, provided immediate feedback as the new grade was being produced.

Supporting operations at the mills are scientists and technicians from the nearby Specialty Pulp Research Center. In addition to supporting our pulp's performance in cutomers' plants, the Center also intensively researches new products. This work has led to several patents and to new products in the development stage. Among these is a line of patented specialty absorbent materials called NovaThin™, which has reached the commercial development stage. These enable our customers to manufacture, at lower cost, feminine care products and disposable diapers that are more absorbent and supple than competing materials. Given NovaThin's commercial demand, we are actively seeking partnerships to expand on the product's technical success.

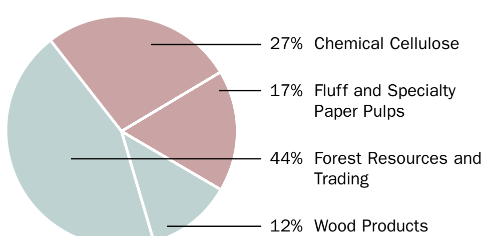
Our scientists are also working on new applications of chemical cellulose fibers for markets that require materials that are strong, yet light in weight and easily processed and recycled. These efforts have resulted in the development of proprietary technologies and products we are currently testing with manufacturers.

Selected Financial and Operating Data

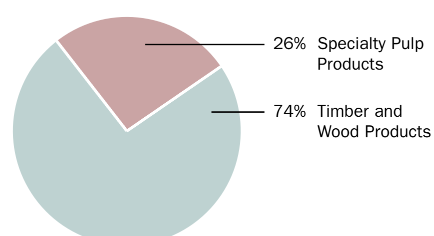
Rayonier Inc. and Subsidiaries

Dollars in millions	**1999**	1998	1997	1996	1995
Sales					
Timber and Wood Products					
Forest Resources and Trading	**$ 457**	$ 402	$ 420	$ 482	$ 553
Wood Products	**120**	121	133	104	76
Total Timber and Wood Products	**577**	523	553	586	629
Specialty Pulp Products					
Chemical Cellulose	**285**	309	338	328	288
Fluff and Specialty Paper Pulps	**175**	179	182	186	252
Total Specialty Pulp Products	**460**	488	520	514	540
Intersegment eliminations	**(1)**	(2)	(3)	(10)	(31)
Total before dispositions	**1,036**	1,009	1,070	1,090	1,138
Dispositions	**—**	—	34	88	122
Total sales	**$ 1,036**	$ 1,009	$ 1,104	$ 1,178	$ 1,260
Operating Income (Loss)					
Timber and Wood Products					
Forest Resources and Trading	**$ 113**	$ 118	$ 118	$ 124	$ 155
Wood Products	**—**	(16)	6	3	(14)
Total Timber and Wood Products	**113**	102	124	127	141
Specialty Pulp Products	**39**	34	56	57	103
Corporate and other	**(16)**	(12)	(17)	(16)	(12)
Total before dispositions	**136**	124	163	168	232
Dispositions	**—**	—	3	(134)	2
Total operating income	**$ 136**	$ 124	$ 166	$ 34	$ 234

1999 Sales by Line of Business



1999 Operating Income



Dollars in millions	**1999**	1998	1997	1996	1995
Timber and Wood Products					
Log Trading Sales Volume					
North America, in millions of board feet	**205**	173	224	284	351
New Zealand, in thousands of cubic meters	**1,246**	851	1,113	1,414	1,682
Other, in thousands of cubic meters	**611**	206	277	97	103
Standing Timber Sales Volume					
Northwest U.S., in millions of board feet	**204**	212	190	193	175
Southeast U.S., in thousands of short green tons	**2,574**	2,360[a]	2,421	2,281	2,218
New Zealand, in thousands of cubic meters[1]	**1,249**	1,003	1,111	1,097	—
Lumber sales volume, in millions of board feet[2]	**255**	310	325	280	213
Medium-density fiberboard sales volume, in thousands of cubic meters	**129**	91	16	—	—
Intercompany Timber Sales Volume					
Northwest U.S., in millions of board feet	**24**	12	14	23	32
Southeast U.S., in thousands of short green tons	**40**	70	92	158	292
New Zealand, in thousands of cubic meters[1]	**580**	385	589	840	—
Specialty Pulp Products					
Pulp Sales Volume					
Chemical cellulose, in thousands of metric tons[3]	**333**	344	381	349	342
Fluff and specialty paper pulp, in thousands of metric tons[4]	**328**	349	344	332	308
Production as a percent of capacity	**95%**	97%	100%	101%	99%

Forest Resources					
Sales					
Northwest U.S.	**$ 73**	$ 81	$ 81	$ 92	$ 96
Southeast U.S.	**79**	77[a]	70	67	72
New Zealand[1]	**25**	24	33	37	—
Total	**$ 177**	$ 182	$ 184	$ 196	$ 168
Operating Income					
Northwest U.S.	**$ 52**	$ 59	$ 58	$ 67	$ 72
Southeast U.S.	**58**	54[b]	51	48	54
New Zealand[1]	**6**	8	8	15	—
Total	**$ 116**	$ 121	$ 117	$ 130	$ 126
EBITDA per Share					
Northwest U.S.	**$ 2.01**	$ 2.22	$ 2.03	$ 2.29	$ 2.46
Southeast U.S.	**2.45**	2.25	2.03	1.87	2.08
New Zealand[1]	**.67**	.64	.69	.85	—
Total	**$ 5.13**	$ 5.11	$ 4.75	$ 5.01	$ 4.54

a) Includes salvage timber sales of $2.3 million on volume of 279 resulting from the Southeast U.S. forest fires

b) Operating income was reduced by $9.7 million due to the Southeast U.S. forest fires.

1) Forest Resources results for New Zealand began in 1996 when Rayonier reorganized its New Zealand operations into separate log trading and forestlands management organizations. Standing timber harvested by Rayonier and sold as logs was 1,133 in 1995.

2) Includes sales by the Plummer lumber mill, which closed in July 1998 after fire damaged the facility, of 51, 77, 79 and 23 for the years 1998-1995, respectively

3) Excludes sales by the Port Angeles pulp mill, which ceased operations on February 28, 1997, of 35, 94 and 98 for the years 1997-1995, respectively

4) Excludes sales by the Port Angeles pulp mill, which ceased operations on February 28, 1997, of 7, 18 and 36 for the years 1997-1995, respectively

Segment Information

Rayonier operates in two major business segments, Timber and Wood Products and Specialty Pulp Products. The Timber and Wood Products segment includes two reportable business units: Forest Resources and Trading, and Wood Products. Chemical Cellulose, and Fluff and Specialty Paper Pulps are product lines within the Specialty Pulp Products segment.

Business Conditions

Rayonier's net income in 1999 was $69 million, or $2.44 per share, compared to $64 million, or $2.22 per share in 1998. Excluding the impact of special items in each year, 1999 net income was $65 million, or $2.32 per share, and 1998 net income was $70 million, or $2.44 per share. Special items in 1999 mainly relate to a large land sale in the Southeast U.S., the corporate office restructuring and relocation costs, the gain on sale of a non-strategic marine terminal and associated assets in the Northwest U.S. and the non-cash charge for a prior year contract dispute. Special items in 1998 primarily refer to reduced realizations on fire-damaged timber as a result of forest fires in the Southeast U.S.

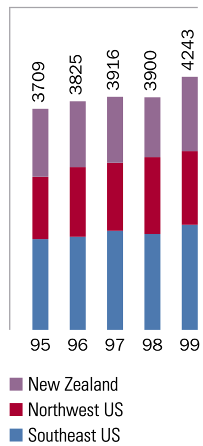
In 1999, 45 percent of Rayonier sales were made to customers outside the U.S., compared to 42 percent in 1998. Last year was a favorable turning point in most of the Company's markets. The pulp cycle upturn firmed in the second half and Asian markets strengthened for timber and wood products. The domestic housing market remained strong, which benefited the lumber business.

In Timber and Wood Products, the Wood Products business strengthened due to continued price and cost improvements at the Company's medium-density-fiberboard (MDF) plant in New Zealand and higher prices for lumber. The Forest Resources and Trading business unit was adversely affected by lower prices for timber and the costs associated with the closure of a wood products distribution business in the Northwest U.S. These unfavorable results were partially offset by higher land sales in the Southeast U.S.

Specialty Pulp segment performance in 1999 improved due to higher fluff pulp prices and lower manufacturing costs.

On October 25, 1999, the Company acquired approximately 968,000 acres of forestland in Florida, Georgia and Alabama from Jefferson Smurfit Corporation (U.S.) for a total cost of $716.4 million. This purchase more than doubled Rayonier's Southeast timber holdings. The 1999 impact of additional interest expense associated with the acquisition, net of operating gains, amounted to $7.2 million, or 16 cents per share.

Annual Harvest by Region
(thousands of cubic meters)



Harvesting is well balanced in productive forest areas.

Rayonier sold a marine terminal and associated assets in the Northwest U.S. for a gain of $7.7 million, as part of its programs to divest non-strategic assets and reduce debt. A large land sale in the Southeast U.S. resulted in a gain of $5 million, as part of an ongoing program to convert forestlands for higher and better use. The Company also sells non-strategic land that is not an integral part of its asset base. Sales of non-strategic Southeast forestlands, with approximately $50 million in cash proceeds, are planned for the first half of 2000, as part of the continuing program to reduce debt.

Rayonier's capital spending in 1999 was focused on cost reduction, quality and productivity improvements in Specialty Pulp Products and Wood Products and investment in forestlands. These investments are expected to help moderate the cyclical effects of the pulp market cycle, improve bottom-of-the-cycle earnings and add value to existing assets. *See Liquidity and Capital Resources.*

Continued strength in fluff pulp markets, increased Asian demand and expected improvements from U.S. and New Zealand wood products businesses should improve operating results in 2000. However, net income for the first three quarters of 2000 may lag 1999 results as the Company fully absorbs the Smurfit forestland acquisition financing costs.

Results of Operations, 1999 vs. 1998

Sales and Operating Income

Sales increased 3 percent to $1.036 billion in 1999, reflecting higher Forest Resources and Trading activity, partially offset by weaker U.S. timber prices and reduced sales in the Specialty Pulp Products segment due to lower chemical cellulose prices and volume. Operating income for the year was $136 million, up from $124 million in 1998, due to improvements in Wood Products at the New Zealand MDF facility and a strong U.S. lumber market. Forest Resources and Trading results declined due to lower U.S. timber prices. Specialty Pulp Products results improved due to lower manufacturing costs and higher fluff pulp prices.

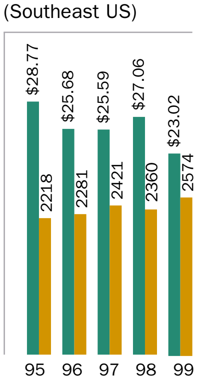
Timber and Wood Products

Sales and operating income were higher than the prior year by $54 million and $11 million, respectively.

Forest Resources and Trading – Forest Resources and Trading sales of $457 million in 1999 were $55 million above 1998 while operating income of $113 million decreased $5 million from 1998.

Sales improved due to higher wood products trading activity and increased log trading volume in Asian and U.S. domestic markets, partially offset by lower U.S. timber prices. Operating income declined due to lower Northwest U.S. timber sales and costs associated with the closure of a wood products distribution business, partly offset by higher land sales in the Southeast U.S., including a relatively large transaction in the fourth quarter resulting in a gain of $5 million. Operating income was reduced by $10 million in 1998 due to the Southeast U.S. forest fires, including $7 million on lower pricing for salvage timber and $3 million on the write-off of destroyed timber assets and other fire-related expenses. Timber prices were unusually high in Southeast U.S. markets during the first half of 1998 due to unusually wet weather that led to restricted supply because of difficult logging conditions. In 1999, timber prices declined in the Northwest U.S. due to the impact of the Asian economic crisis on export products and in the Southeast U.S. due to reduced pulpwood demand resulting from pulp and paper mill closures and downtime in the region.

Timber
(Southeast US)



■ Price per short green ton
■ Volume in thousand short green tons

With the purchase of 968,000 acres in late 1999, volume will double in 2000.

Wood Products – Wood Products sales of $120 million in 1999 approximate the 1998 level. Improved volume and sales price for the MDF plant, and a strong Southeast U.S. lumber market were offset by the absence of sales from the Plummer, ID, sawmill. This lumber mill was closed in July 1998, after fire damaged the facility, and subsequently was sold in September 1999. Operating income broke even in 1999 compared to a loss of $16 million in 1998. The favorable variance resulted from continued improvements at the MDF plant in both selling price and manufacturing costs combined with higher lumber selling prices.

Specialty Pulp Products

Pulp sales of $460 million for the Company's Jesup and Fernandina pulp mills were $28 million below the prior year level principally due to reduced customer demand and selling prices for chemical cellulose pulp products partly offset by higher fluff pulp prices. Operating income of $39 million was $5 million above 1998 as a result of higher fluff pulp prices and lower wood, chemical and maintenance costs. Pulp production costs decreased to $596 per ton in 1999 from $638 per ton in 1998, primarily resulting from lower wood and chemical costs. These gains were partially offset by lower chemical cellulose pricing and market related shutdown costs for the Fernandina mill.

Corporate and Other

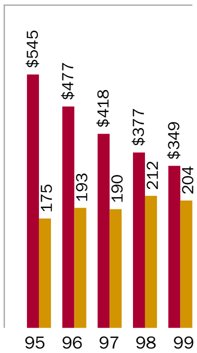
Corporate and other costs for 1999 were higher than 1998, principally due to $4.1 million of expense associated with the Company's corporate office restructuring and pending relocation to Jacksonville, FL. The projected impact on first half 2000 results for additional relocation costs is approximately $5.5 million.

Other Income/Expense

Interest expense for 1999 increased $7 million to $42 million reflecting higher debt levels associated with the Smurfit forestland acquisition net of a lower debt level (excluding debt associated with Smurfit) and lower average interest rates.

Other income improved $4 million over 1998 due to the October sale of the non-strategic marine terminal and related assets in the Northwest U.S. for $9.5 million, resulting in a one-time gain of $7.7 million. This gain was partially offset by a non-cash charge for an unrelated contract dispute of $4.6 million.

Timber
(Northwest US)



Prices continued to decline due to soft export markets, but volume remained strong due to domestic demand.

Rayonier purchases foreign currency forward contracts to offset the impact of New Zealand/U.S. dollar exchange fluctuations on operating results. The mark-to-market loss on these contracts, included in "Interest and miscellaneous income (expense), net," was relatively minor in 1999, as compared to a mark-to-market loss of $1 million in 1998. In 1999 the New Zealand/U.S. dollar exchange rate moved slightly from 0.52 on January 1, 1999, to 0.51 on December 31, 1999.

Acquisition of Smurfit Forestland

On October 25, 1999 the Company completed the forestland purchase from Jefferson Smurfit Corporation (U.S.). The final acquisition cost of the forestland was $716.4 million for approximately 968,000 owned and long-term leased acres in Georgia, Florida and Alabama. Rayonier now is the seventh largest private forestland owner in the U.S., with 2.2 million acres. As is typical of newly acquired forestland, the properties are expected to be earnings dilutive initially. The projected effect on 2000 quarterly results is estimated to be approximately 20-22 cents per share due to higher interest expense and timber depletion costs. It is also expected that consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) will increase significantly next year by approximately $70 million to $74 million due to the acquisition.

Income Taxes

The effective tax rate for 1999 was 30 percent compared to 29 percent in 1998. The effective tax rates are below U.S. statutory rates, primarily resulting from the lower rates in effect for foreign subsidiaries, and research and investment tax credits.

Results of Operations, 1998 vs. 1997

Sales and Operating Income

Sales declined 9 percent to $1,009 million in 1998, reflecting lower sales in each of the Company's major business segments and the absence of sales from the Company's Port Angeles pulp mill, permanently closed in February 1997. Operating income for the year was $124 million, down from $166 million in 1997, due to Wood Products losses at the New Zealand MDF facility and lower pricing within Specialty Pulp. Forest fires in the Southeast U.S. in early July resulted in losses of $10 million from damage to pre-merchantable timber, reduced sales revenue for fire-damaged timber and other related costs. In addition, the unusually wet weather conditions in the first half of the year disrupted production schedules and raised the cost of wood fiber at the Company's pulp and sawmills in the Southeast U.S.

Timber and Wood Products

Sales and operating income were lower than prior year by $30 million and $22 million, respectively.

Forest Resources and Trading – Forest Resources and Trading sales of $402 million in 1998 decreased from $420 million in 1997 while operating income of $118 million was similar to 1997.

Standing timber and log trading sales decreased from 1997 due to lower prices in the Northwest U.S. and lower prices and volumes in New Zealand partly offset by sales from a newly established wood products trading business and stronger domestic log trading volume. Operating income levels were maintained in 1998 due to a strong Southeast U.S. timber market in the first half of the year, when unusually wet weather conditions led to restricted supply, and stronger Southeast U.S. land sales. These positive factors offset the $10 million adverse impact associated with the Southeast U.S. forest fires in the second half of the year, and lower Northwest U.S. and New Zealand selling prices due to weak Asian demand.

Wood Products – Wood Products sales of $121 million in 1998 decreased from $133 million in 1997 due to weaker U.S. lumber prices and sales volume partially offset by a full year of product sales from the New Zealand MDF facility, which began operations in the fourth quarter of 1997. Wood Products incurred an operating loss of $16 million in 1998 compared to operating income of $6 million in 1997. A full year of MDF operating losses, weaker lumber selling prices and volume and higher log costs in the Southeast U.S. affected 1998 results. The MDF facility, which contributed most of the operating losses, was affected by weak demand for forest products from Asian markets and worldwide overcapacity in MDF.

Specialty Pulp Products

Pulp sales of $488 million for the Company's Jesup and Fernandina mills were $32 million below the prior year principally due to reduced customer demand for chemical cellulose. Operating income of $34 million was $22 million below 1997 as a result of lower chemical cellulose volume and higher wood fiber costs. Pulp production costs increased to $638 per ton in 1998 from $612 in 1997, primarily resulting from higher wood costs (weather related) in the first half and a market related shutdown at Fernandina in the fourth quarter.

Corporate and Other

Corporate and other costs for 1998 were favorable to 1997, reflecting lower administrative and general expenses.

Dispositions

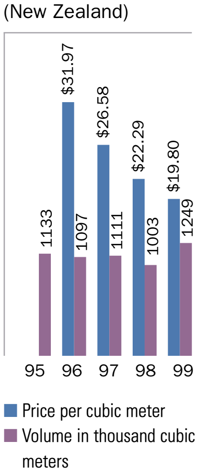
Dispositions results include the Company's Port Angeles, WA, pulp mill, permanently closed in February 1997. Sales and operating income in 1997 were $34 million and $3 million, respectively. There were no sales in 1998.

Other Income/Expense

Interest expense for 1998 increased $9 million to $35 million reflecting higher average debt levels associated with the $66 million purchase in January of the outstanding publicly traded Class A Units in RTLP. In addition, there was insignificant capitalized interest in 1998 compared to $5 million in 1997, primarily relating to the Company's New Zealand MDF facility.

Rayonier purchases foreign currency forward contracts to offset the impact of New Zealand/U.S. dollar exchange fluctuations on operating results. The mark-to-market loss on these contracts, included in "Interest and miscellaneous income (expense), net," was $1 million in 1998, as compared to a mark-to-market loss of $3 million in 1997. In contrast, the 1998 movement of the New Zealand/U.S. dollar exchange rate from 0.58 on January 1, 1998, to 0.52 on December 31, 1998, had a favorable effect of $4 million on the Company's New Zealand operating income.

Timber
(New Zealand)



With recovery in Asian markets, volume rebounded to a record level.

From time to time the Company opportunistically sells non-strategic assets to maximize value from its asset mix. During 1997, the Company sold a 75 percent interest in two New Zealand forests to a timber investment fund. The transaction resulted in a pretax gain of $8.4 million, $5.6 million after-tax, or 19 cents per share. No similar transactions occurred during 1998.

Acquisition of Minority Interest in RTLP

In January 1998, Rayonier exercised its right to acquire all of the 5,060,000 publicly traded Class A Units of RTLP for a cash purchase price of $13.00 per unit, or $66 million in total, in accordance with the terms of the RTLP Partnership Agreement. The effect of that purchase was to eliminate the minority interest in the Partnership earnings, which was $26 million in 1997. The positive impact was partially offset by higher interest and depletion costs in 1998. The acquisition was accounted for under the purchase method and was financed by the utilization of existing credit facilities.

Income Taxes

The effective tax rate for 1998 was 29 percent compared to 28 percent in 1997. The effective tax rates are below U.S. statutory rates, primarily resulting from the lower rates in effect for foreign subsidiaries and research and investment tax credits.

Liquidity and Capital Resources

Cash flow from operating activities in 1999 of $217 million, or approximately $8 per share, increased $60 million from 1998 principally as a result of decreased working capital requirements and higher net income. This cash flow helped to finance capital expenditures of $95 million, dividends of $36 million and the repurchase of Common Shares of $24 million and also helped to reduce debt by $70 million, excluding the Smurfit forestland acquisition.

Cash from operating activities in 1998 decreased $96 million from the 1997 level to $157 million. This cash flow financed capital expenditures of $95 million, dividends of $35 million and the repurchase of Common Shares of $27 million.

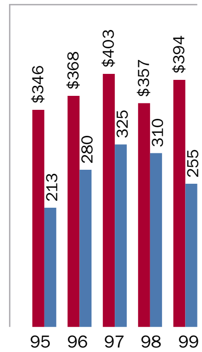
In 1996, the Company began a Common Share repurchase program to minimize the dilutive effect on earnings per share of its employee incentive stock plans. This program limits the number of shares that may be repurchased each year to the greater of 1.5 percent of the Company's outstanding shares or the number of incentive shares actually issued to employees during the year. In July 1998, the Company's Board of Directors increased the authorized number of common shares to be repurchased by 200,000 and in October 1998, the Board authorized the repurchase of an additional one million shares through December 31, 2000. These share repurchases were authorized in addition to the 1.5 percent of outstanding shares normally repurchased each year to offset the dilutive effect of incentive stock programs on earnings per share. The Company repurchased 551,867 shares in 1999 at an average cost of $43.11 for a total of $24 million, compared to 628,479 shares in 1998, at an average cost of $42.24 for a total of $27 million, and 1,123,500 shares in 1997 at an average cost of $43.08 for $48 million.

In 1999, EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization) was $246 million, or $8.72 per share, an increase of $20 million from 1998 results primarily due to higher cash operating income. In 1998, EBITDA was $226 million, or $7.90 per share, compared to $237 million, or $8.07 per share, in 1997. Free cash flow (defined as income from continuing operations plus depreciation, depletion and amortization, deferred income taxes and changes in working capital, less custodial capital spending and prior-year dividend levels) increased $55 million to $121 million in 1999 primarily as a result of working capital changes and higher net income.

Debt increased $646 million in 1999 to $1,136 million, primarily due to the acquisition of forestland assets from Jefferson Smurfit Corporation (U.S.) for $716 million. The year-end debt-to-capital ratio of 63.5 percent is 20 percentage points above prior year-end due to the Smurfit forestland acquisition. Excluding the impact of the Smurfit forestland acquisition, the debt-to-capital ratio would have been 38.6 percent. The percentage of debt with fixed interest rates was 62 percent as of December 31, 1999, and 44 percent as of December 31, 1998.

The most restrictive long-term debt covenant in effect for Rayonier at December 31, 1999, provided that the ratio of total debt to EBITDA not exceed 5.5 to 1 at the end of 1999 and at the end of each calendar quarter of 2000. Under the same covenant, effective March 31, 2001 and at the end of subsequent calendar quarters, that ratio cannot exceed 4.0 to 1. As of December 31, 1999, the ratio was 4.7 to 1. The most restrictive long-term debt covenants in effect for RTOC at December 31, 1999, provided that the ratio of consolidated cash flow available for fixed charges to consolidated fixed charges not be less than 1.6 to 1, and that the ratio of consolidated total debt to consolidated cash flow available for fixed charges not exceed 4.5 to 1. As of December 31, 1999, the ratios were 2.2 to 1 and 4.2 to 1, respectively. In addition, $422 million of retained earnings was unrestricted as to the payment of dividends.

Wood Products
(Lumber)



Prices rose with strong market conditions. Volume declined after 1998 closure of Idaho sawmill.

Capital expenditures of $95 million in 1999 included $69 million of custodial capital spending, $11 million to upgrade the Swainsboro, GA, sawmill, and $3 million to automate and upgrade control systems at the pulp mills. The lumber mill modernization project included drying and finishing facilities as well as enhanced process control technology. Rayonier expects to invest $180 million to $220 million in capital projects during the two-year period 2000-2001. Capital projects include profit improvement, custodial capital, sawmill modernization, forestlands reforestation and various projects to comply with new environmental laws and requirements. As new environmental regulations are promulgated, additional capital spending may be required to ensure continued compliance with environmental standards. *See Environmental Regulation.*

The Company has unsecured credit facilities totaling $300 million, which were used as support for $75 million of outstanding commercial paper. As of December 31, 1999, Rayonier had $215 million available under its revolving credit facilities. In connection with the financing of the Smurfit forestland acquisition, RTOC entered into an agreement with a group of banks that provided RTOC with revolving credit facilities totaling $75 million and expiring in 2004. As of December 31, 1999, RTOC had $43 million of available borrowings under its revolving credit facilities. In addition, the Company has on file with the Securities and Exchange Commission shelf registration statements to offer $150 million of new public debt securities. The Company believes that internally generated funds, combined with available external financing, will enable Rayonier to fund capital expenditures, share repurchases, working capital and other liquidity needs for the foreseeable future.

Environmental Regulation

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal that, in the opinion of management, will require substantial expenditures over the next 10 years. During 1999, 1998 and 1997, Rayonier spent approximately $3 million, $3 million and $4 million, respectively, for capital projects related to environmental compliance for ongoing operations. During the two-year period 2000-2001, Rayonier expects to spend approximately $20 million on such capital projects.

During 1997, the Environmental Protection Agency (EPA) finalized its Cluster Rules governing air emissions but, due to the specialty nature of Rayonier's products and operations, postponed finalizing water discharge rules and certain air emissions rules governing the Company's pulp mills. The Company continues to work with the EPA to establish such rules for the pulp mills, but the timing and costs associated with such rulemaking are uncertain. In the opinion of management, capital costs to be incurred over the next three to five years associated with environmental regulations will not exceed $30 million at the Fernandina pulp mill and $50 million at the Jesup pulp mill.

Federal, state and local laws and regulations intended to protect threatened and endangered species as well as wetlands and waterways limit and may prevent timber harvesting, road building and other activities on private lands. A portion of the Company's forestlands is subject to some level of harvest restrictions. In particular, over the past several years, the harvest of timber from the Company's forestlands in the state of Washington has been restricted as a result of the listing of the northern spotted owl, the marbled murrelet and several species of salmon and trout as threatened species under the Endangered Species Act. These restrictions have caused Rayonier to restructure and reschedule some of its harvest plans. Emergency and permanent rules are in the process of being adopted in Washington state pursuant to a statute intended to implement an agreement between the timber industry and local government entities to protect the salmon. These rules will further reduce the proportion of Rayonier's Northwest forestlands available for commercial timber management and the total volume of timber available for harvest. Rayonier has made changes to its long-term harvest plan to compensate for these restrictions and does not anticipate a material adverse change in its harvest schedule in the near term. Such efforts are ongoing and, in the opinion of management, will not have a material impact on the Company's consolidated financial position or results of operations.

Pulp Sales Volume
(thousands of metric tons)

Includes 1995-1997 sales by the now-closed Port Angeles pulp mill

Although first half demand was weak, fluff markets strengthened significantly late in the year.

Dispositions and discontinued operations include Rayonier's Port Angeles, WA, pulp mill, which was closed on February 28, 1997; its interest in the Grays Harbor, WA, pulp and paper complex, which was closed in 1992; its wholly owned subsidiary, Southern Wood Piedmont Company, which ceased operations in 1986; Rayonier's Eastern Research Division, which ceased operations in 1981; and other miscellaneous assets held for disposition. Rayonier currently estimates that expenditures during 2000-2001 for environmental remediation and monitoring costs for all dispositions and discontinued operations will total approximately $28 million. Such costs will be charged against Rayonier's reserves for estimated environmental obligations (including monitoring and remediation costs) that the Company believes are sufficient for costs expected to be incurred over the next 25-30 years with respect to dispositions and discontinued operations. At December 31, 1999, these reserves totaled approximately $169 million. The amount of actual future environmental costs is dependent on the outcome of negotiations with federal and state agencies and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Based on information currently available, the Company does not believe that any future changes in estimates, if necessary, would materially affect its consolidated financial condition or results of operations.

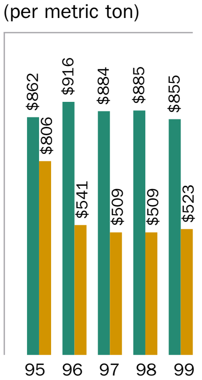
Market Risk

The Company is exposed to various market risks, including changes in commodity prices, interest rates and foreign currency exchange rates. The Company's objective is to minimize the impact of these market risks on its earnings, cash flow and equity. Derivatives are used, as noted below, in accordance with policies and procedures approved by 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 financial instruments for trading purposes.

Most of the Company's revenues and expenses are U.S.-dollar denominated. However, the Company does have some risk within its New Zealand operations related to foreign currency pricing and costs. The Company enters into foreign currency forward contracts periodically to manage the risks of foreign currency fluctuations as they relate to the cash flow and earnings of that business unit. The Company also periodically enters into commodity forward contracts to fix certain energy costs. At December 31, 1999, the Company held foreign currency contracts maturing through February 2001 totaling $28 million and there were no commodity forward contracts outstanding. The fair value of foreign currency contracts, at year end, was a loss of less than $0.1 million. Market risk resulting from a hypothetical two cent change in the New Zealand dollar / U.S. dollar exchange rate amounts to approximately $1 million.

The Company periodically enters into interest rate swap agreements to manage its exposure to interest rate changes, or in back to back arrangements at the time debt is issued in order to cost effectively place that debt. These swaps involve the exchange of fixed and variable interest rate payments without exchanging notional principal amounts. At December 31, 1999, the Company had one interest rate swap agreement in existence with a notional amount of $5 million that matures in 2001 that swapped a fixed 6 percent interest rate for a three-month LIBOR rate plus 39 basis points. The swap agreement was initiated at the time a fixed rate medium-term note with similar maturity was placed. The fair value of the interest rate swap, at year-end, was a gain of less than $0.1 million. Market risk resulting from a hypothetical one percentage point increase in the three-month LIBOR rate (100 basis points) was not material.

Pulp Price
(per metric ton)



Includes 1995-1997 sales by the now-closed Port Angeles pulp mill

Fluff pulp prices improved steadily throughout the year.

The fair market value of long-term fixed interest rate debt is subject to interest rate risk; however, the Company intends to hold most of its debt until maturity. Occasionally, callable bonds will be refinanced at the Company's option if favorable economic conditions exist. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of the Company's fixed rate debt at December 31, 1999, was $700 million compared to $709 million in carrying value. A one percentage point decrease in prevailing interest rates at December 31, 1999, would result in an increase in the fair value of the Company's fixed rate debt of approximately $44 million.

Year 2000 Compliance

Rayonier began its company-wide Year 2000 Project in 1996. The Project was designed to identify Year 2000 problems and take corrective action covering business and process control systems, networking communications, personal computer applications, embedded microprocessors and third party supplier and customer risks. The Y2K transition was uneventful as Rayonier moved into the year 2000.

The total amount expended on the Year 2000 Project through the end of 1999 was approximately $3.3 million. Many of the Company's systems were upgraded or replaced in the ordinary course of business during the last five years, and costs related to those upgrades and replacements are not included in the Year 2000 Project expenses.

Safe Harbor

Comments about market trends, anticipated earnings and activities in 2000 and beyond, including disclosures about the Company's environmental spending, are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Changes in the following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: failure to close on sales of non-strategic forestlands; governmental policies and regulations affecting the environment, import and export controls and taxes; adverse weather conditions in the Company's operating areas; competitive products and pricing, as well as fluctuations in demand, particularly for specialty fluff pulps, export and domestic logs, and wood products; the impact of such market factors on the Company's timber sales in the United States and New Zealand; the impact of global market conditions on prices and volumes; production costs for wood products and for specialty pulps, particularly for raw materials such as wood and chemicals; and interest rate and currency movements.

Statements of Consolidated Income

Rayonier Inc. and Subsidiaries

Thousands of dollars, except per share data	*For the Year Ended December 31,* **1999**	1998	1997
Sales	**$1,035,871**	$1,008,566	$1,104,228
Costs and Expenses			
Cost of sales	**867,096**	852,483	902,734
Selling and general expenses	**39,644**	35,467	42,410
Other operating (income) expense, net	**(6,599)**	(3,507)	(7,046)
	900,141	884,443	938,098
Operating income	**135,730**	124,123	166,130
Interest expense	**(42,193)**	(34,712)	(25,868)
Interest and miscellaneous income (expense), net	**(3,163)**	743	(2,490)
Gains from sale of assets	**7,746**	—	8,395
Minority interest	**—**	—	(25,520)
Income before income taxes	**98,120**	90,154	120,647
Income tax expense	**(29,467)**	(26,519)	(33,328)
Net income	**$ 68,653**	$ 63,635	$ 87,319
Net Income per Common Share			
Basic EPS	**$ 2.48**	$ 2.26	$ 3.03
Diluted EPS	**2.44**	2.22	2.97

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

Consolidated Balance Sheets

Rayonier Inc. and Subsidiaries

Thousands of dollars	*As of December 31,* 1999	1998
Assets		
Current Assets		
Cash and short-term investments	**$ 12,265**	$ 6,635
Accounts receivable, less allowance for doubtful accounts of $4,859 and $4,843	**103,535**	118,762
Inventories	**105,079**	98,910
Timber purchase agreements	**30,477**	35,776
Other current assets	**11,107**	13,192
Deferred income taxes	**9,143**	8,559
Total current assets	**271,606**	281,834
Other assets	**77,094**	65,988
Timber purchase agreements	**7,816**	20,922
Timber, forestlands and logging roads, net of depletion and amortization	**1,247,547**	544,190
Property, Plant and Equipment		
Land, buildings, machinery and equipment	**1,333,789**	1,304,188
Less – accumulated depreciation	**657,625**	616,266
	676,164	687,922
	$ 2,280,227	$1,600,856
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	**$ 74,035**	$ 65,844
Bank loans and current maturities	**3,248**	4,094
Accrued taxes	**15,148**	8,728
Accrued payroll and benefits	**22,405**	21,460
Accrued interest	**11,160**	6,182
Other current liabilities	**48,895**	44,279
Current reserves for dispositions and discontinued operations	**18,980**	22,167
Total current liabilities	**193,871**	172,754
Deferred income taxes	**123,458**	115,405
Long-term debt	**1,132,930**	485,850
Non-current reserves for dispositions and discontinued operations	**149,551**	159,198
Other non-current liabilities	**27,517**	28,690
Shareholders' Equity		
Common Shares, 60,000,000 shares authorized, 27,407,094 and 27,767,309 shares issued and outstanding	**60,518**	79,561
Retained earnings	**592,382**	559,398
	652,900	638,959
	$ 2,280,227	$1,600,856

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

Statements of Consolidated Cash Flows

Rayonier Inc. and Subsidiaries

Thousands of dollars	*For the Year Ended December 31,* 1999	1998	1997
Operating Activities			
Net income	**$ 68,653**	$ 63,635	$ 87,319
Non-cash items included in income			
Depreciation, depletion and amortization	**105,425**	101,083	99,309
Deferred income taxes	**2,768**	11,659	14,045
Write-off of property, plant and equipment	**—**	5,730	2,100
Disposition of New Zealand timber assets	**—**	—	4,634
(Decrease) increase in other non-current liabilities	**(1,173)**	(3,307)	1,468
Change in accounts receivable, inventories and accounts payable	**17,249**	3,755	35,157
Decrease (increase) in current timber purchase agreements	**5,299**	(4,018)	(342)
Decrease (increase) in other current assets	**2,086**	763	(732)
Increase (decrease) in accrued liabilities	**16,959**	(21,179)	10,861
Reduction in reserves for dispositions	**—**	(1,050)	(900)
Cash from operating activities	**217,266**	157,071	252,919
Investing Activities			
Capital expenditures, net of sales and retirements of $2,713, $5,613 and $4,691	**(91,880)**	(89,099)	(132,272)
Acquisition of Smurtfit forestlands	**(231,436)**	—	—
Acquisition of Rayonier Timberlands, L.P. Class A Units	**—**	(48,821)	—
Expenditures for dispositions and discontinued operations, net of tax benefits of $4,701, $6,033 and $8,793	**(8,133)**	(10,414)	(15,423)
Change in timber purchase agreements and other assets	**13,291**	(2,871)	(10,672)
Cash used for investing activities	**(318,158)**	(151,205)	(158,367)
Financing Activities			
Issuance of debt	**352,971**	282,905	342,226
Repayments of debt	**(191,737)**	(218,480)	(349,617)
Dividends paid	**(35,669)**	(34,744)	(34,523)
Repurchase of Common Shares	**(23,791)**	(26,548)	(48,396)
Issuance of Common Shares	**4,748**	3,934	4,892
Buyout of minority interest	**—**	(16,959)	(1,905)
Cash provided by (used for) financing activities	**106,522**	(9,892)	(87,323)
Cash and Short-Term Investments			
Increase (decrease) in cash and short-term investments	**5,630**	(4,026)	7,229
Balance, beginning of year	**6,635**	10,661	3,432
Balance, end of year	**$ 12,265**	$ 6,635	$ 10,661
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	**$ 37,529**	$ 34,868	$ 29,951
Income taxes	**$ 17,152**	$ 11,673	$ 8,671
Noncash Investing and Financing Activities			
Acquisition of Smurfit forestlands	**$ 485,000**	—	—
Issuance of installment notes	**$ 485,000**	—	—

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

Dollar amounts in thousands unless otherwise stated

1. Nature of Business Operations

Rayonier operates in two major business segments, Timber and Wood Products, and Specialty Pulp Products.

Timber and Wood Products

The Timber and Wood Products segment includes two reportable business units: Forest Resources and Trading, and Wood Products.

Forest Resources and Trading – Rayonier owns, leases or controls approximately 2.4 million acres of forestlands in the U.S. and New Zealand. Rayonier is also a leading exporter and trader of softwood logs, lumber and wood panel products.

Wood Products – Rayonier operates two lumber manufacturing facilities in the U.S. that produce dimension and custom lumber products for residential construction and industrial uses, and a medium-density-fiberboard (MDF) facility in New Zealand that produces premium-grade MDF sold into world markets. The MDF facility began commercial operation in October 1997.

Specialty Pulp Products

Rayonier is a leading specialty manufacturer of high-grade chemical cellulose, often called dissolving pulp, from which customers produce a wide variety of products, including textiles, industrial and filtration fibers, plastics and other chemical intermediate products. Rayonier also manufactures fluff pulps that customers use to produce diapers and other sanitary products, and specialty paper pulps used in the manufacture of products such as filters and decorative laminates. With the closure of the Port Angeles, WA, pulp mill on February 28, 1997, the Company now operates two pulp mills in the U.S. at Jesup, GA, and Fernandina Beach, FL, with an aggregate annual capacity of 700,000 metric tons. Over half of Rayonier's pulp production is sold to export customers, primarily in Europe and Asia.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Rayonier and its subsidiaries. All significant intercompany balances and transactions are eliminated. Minority interest through December 31, 1997, represented public unitholders' proportionate share of the partners' capital of Rayonier's consolidated subsidiary, Rayonier Timberlands, L.P. (RTLP). During 1998, all outstanding public units were acquired by Rayonier.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates by management (e.g., useful economic lives of assets) in determining the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Short-Term Investments

Cash and short-term investments include cash, time deposits and readily marketable debt securities with maturities at date of acquisition of three months or less.

Inventories

Inventories are valued at the lower of cost or market. The cost of manufactured pulp and MDF products is determined on the first-in, first-out (FIFO) basis. Other products are generally valued on an average cost basis. Inventory costs include material, labor and manufacturing overhead. Physical counts of inventories are made at least annually. Potential losses from obsolete, excess or slow-moving inventories are provided currently.

Inventories also include land that has a greater value as real estate than as forestlands. This higher and better use land, expected to be sold within one year, is included in "Inventories." Land held for resale, expected to be sold after one year, is included in "Other assets."

Timber Purchase Agreements and Timber-Cutting Contracts

Rayonier purchases timber for use in its log trading, pulp and wood products businesses. The purchases are classified as current for timber expected to be harvested within one year of the balance sheet date. The remainder is classified as a non-current asset.

Rayonier evaluates the realizability of timber purchases and timber-cutting contracts based on the estimated aggregate cost of such harvests and the sales values to be realized. Losses are recorded in the period that a determination is made that the aggregate harvest costs in a major operating area will not be fully recoverable.

Deferred Debt Issuance Costs

Debt issuance costs, amounting to approximately $9.6 million and $2.3 million at December 31, 1999 and 1998, respectively, are included in "Other assets." Approximately $7.4 million was incurred in 1999 in connection with the Smurfit forestlands acquisition. *See Note 6.* Such costs are amortized to interest expense over the respective lives of the debt instruments. Expenses amounted to $529, $419 and $468 in 1999, 1998 and 1997, respectively.

Deferred Software

Software costs have been capitalized and are being amortized over their useful life, generally a period not exceeding 60 months. Deferred software costs included in “Other assets,” net of accumulated amortization, totaled $15,293 and $16,727 as of December 31, 1999 and 1998, respectively. Amortization expense amounted to $4,248, $3,028 and $2,918 in 1999, 1998 and 1997, respectively.

Timber and Forestlands

The acquisition cost of land, timber, real estate taxes, lease rental payments, site preparation and other costs relating to the planting and growing of timber are capitalized. Such accumulated costs attributed to merchantable timber are charged against revenue at the time the timber is harvested based on the relationship of harvested timber to the estimated volume of currently merchantable timber. Timber and forestlands are stated at the lower of original cost, net of timber cost depletion, or market value.

Property, Plant and Equipment

Property, plant and equipment additions are recorded at cost, which includes applicable freight, taxes, interest, construction and installation costs. Interest capitalized in connection with major construction projects, primarily the New Zealand MDF facility in 1997, amounted to $314, $262, and $5,005 during 1999, 1998 and 1997, respectively. Upon ordinary retirement or sale of property, accumulated depreciation is charged with the cost of the property removed and credited with the proceeds of salvage value, with no gain or loss recognized. Gains and losses with respect to any significant and unusual retirements of assets are generally included in operating income.

Depreciation

Pulp and MDF manufacturing facilities are generally depreciated using the units of production method. Depreciation on buildings and other equipment is provided on a straight-line basis over the useful economic lives of the assets involved. Rayonier normally claims the maximum depreciation deduction allowable for tax purposes.

Research and Development

Significant costs are incurred for research and development programs expected to contribute to the profitability of future operations. Such costs are expensed as incurred. Research and development expenditures amounted to $10,179, $10,720, and $9,656 in 1999, 1998 and 1997, respectively.

Foreign Currency Translation

For significant foreign operations, including Rayonier’s New Zealand-based operations, the U.S. dollar is the functional currency. Monetary assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates. Non-monetary assets such as inventories, timber and property, plant and equipment are translated at historical exchange rates. Income and expense items are translated at average exchange rates prevailing during the year, except that inventories, depletion and depreciation charged to operations are translated at historical rates. Exchange gains and losses arising from translation are recognized currently in “Other operating (income) expense, net.”

Income Taxes

Income taxes on foreign operations are provided based upon the statutory tax rates of the applicable foreign country. Additional U.S. income taxes have not been provided on approximately $51 million of undistributed foreign earnings as the Company intends to permanently reinvest such earnings in expanding foreign operations.

3. Segment and Geographical Information

Rayonier adopted Statement of Financial Accounting Standards (SFAS) No. 131, “Disclosures About Segments of an Enterprise and Related Information” in 1998, which changed the way the Company reports information about its operating segments. The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies. Sales between operating segments and reportable business units are made based on a fair market value and intercompany profit or loss is eliminated in consolidation. The Company evaluates financial performance based on the operating income of the reportable business units.

Rayonier operates in two major business segments, Timber and Wood Products, and Specialty Pulp Products. The Timber and Wood Products segment includes two reportable business units under SFAS No. 131: Forest Resources and Trading, and Wood Products.

Forest Resources and Trading manages forestlands and sells standing timber, purchases and harvests timber to sell logs, and purchases lumber and wood panel products for resale. Wood Products manufactures and sells dimension and specialty lumber and medium-density-fiberboard products. Specialty Pulp Products produces and sells chemical cellulose, fluff and specialty pulps.

Dispositions includes activities of former operating units, including the Company's Port Angeles, WA, mill, which was permanently closed in 1997.

Please refer to Note 1, which describes the Company's business segments in further detail. Segment information for the three years ended December 31 follows (millions of dollars):

	Sales			*Operating Income*		
	1999	1998	1997	**1999**	1998	1997
Timber and Wood Products						
Forest Resources and Trading	**$ 457**	$ 402	$ 420	**$113**	$118	$118
Wood Products	**120**	121	133	**–**	(16)	6
	577	523	553	**113**	102	124
Specialty Pulp Products	**460**	488	520	**39**	34	56
Corporate and other	**(1)**	(2)	(3)	**(16)**	(12)	(17)
Dispositions	**–**	–	34	**–**	–	3
Total	**$1,036**	$1,009	$1,104	**$136**	$124	$166

	Gross Plant Additions			*Depreciation, Depletion and Amortization*			*Identifiable Assets*		
	1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
Timber and Wood Products									
Forest Resources and Trading	**$ 29**	$ 28	$ 37	**$ 29**	$ 26	$ 23	**$1,409**	$ 691	$ 666
Wood Products	**14**	7	38	**10**	10	8	**163**	164	162
	43	35	75	**39**	36	31	**1,572**	855	828
Specialty Pulp Products	**51**	59	61	**65**	65	66	**670**	690	691
Corporate and other	**1**	1	1	**1**	–	1	**23**	33	46
Dispositions	**–**	–	–	**–**	–	1	**15**	23	31
Total	**$ 95**	$ 95	$137	**$105**	$101	$ 99	**$2,280**	$1,601	$1,596

Custodial capital spending was $69 million, $58 million, and $72 million in 1999, 1998 and 1997, respectively. Custodial capital spending is defined as capital expenditures to maintain current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition, and in compliance with regulatory requirements.

Corporate and other segment sales represent intersegment sales eliminations. Corporate and other segment operating income (loss) represent unallocated corporate expenses.

Geographical Operating Information

Information by geographical operating area for the three years ended December 31 follows (millions of dollars):

	Sales			*Operating Income*			*Identifiable Assets*		
Operating Location	**1999**	1998	1997	**1999**	1998	1997	**1999**	1998	1997
United States	**$ 906**	$ 928	$ 992	**$144**	$141	$163	**$1,940**	$1,253	$1,222
New Zealand	**85**	64	90	**(7)**	(14)	8	**326**	336	357
All other	**45**	17	22	**(1)**	(3)	(5)	**14**	12	17
Total	**$1,036**	$1,009	$1,104	**$136**	$124	$166	**$2,280**	$1,601	$1,596

Rayonier's sales for the last three years by geographical destination are as follows (millions of dollars):

	Sales by Destination					
Sales Destination	**1999**	**%**	1998	%	1997	%
United States	**$ 574**	**55**	$ 587	58	$ 568	51
Japan	**122**	**12**	107	11	173	16
Other Asia	**155**	**15**	109	11	154	14
Europe	**92**	**9**	121	12	127	12
Latin America	**61**	**6**	54	5	59	5
All other	**32**	**3**	31	3	23	2
Total	**$1,036**	**100**	$1,009	100	$1,104	100

4. Financial Instruments

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, but may be adopted as of the beginning of any fiscal quarter after issuance. Upon adoption, SFAS No. 133 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Interest Rate Swap Agreements

Rayonier periodically uses interest rate swap agreements to manage exposure to interest rate fluctuations. The outstanding agreement involves the exchange of fixed rate interest payments for floating rate interest payments over the life of the agreement without the exchange of any underlying principal amounts. Rayonier's credit exposure is limited to the fair value of the agreements, and the Company only enters into agreements with highly rated counterparties. The Company does not enter into interest rate swap agreements for trading or speculative purposes and matches the terms and contract notional amounts to existing debt or debt expected to be refinanced. The net amounts paid or received under interest rate swap agreements are recognized as an adjustment to interest expense.

At December 31, 1999, the Company had an interest rate swap agreement with a total notional value of $5 million, expiring February 23, 2001. The agreement effectively converts a fixed rate obligation at 6 percent to a floating rate of three-month LIBOR plus 39 basis points. If the Company were to terminate its existing interest rate swap agreement, any resulting gain or loss would be deferred and recognized over the remaining life of the related debt.

Foreign Currency Forward Contracts

Rayonier's New Zealand operations generated approximately 8 percent of the Company's sales in 1999. A significant portion of the revenue from Rayonier's New Zealand operations is in U.S. dollars or significantly affected by the New Zealand dollar/U.S. dollar exchange rate. However, most of its cash operating costs are incurred in New Zealand dollars with New Zealand dollar expenses exceeding New Zealand dollar revenues. The Company believes that it has been able to mitigate most of the effect of exchange rate fluctuations of the New Zealand dollar through risk management activities involving foreign currency forward contracts, thereby normalizing the contribution of its New Zealand operations toward what it would have been without exchange rate movements. The Company plans to continue this program but will continue to limit its mark-to-market exposure so as not to have a material effect on EPS if exchange rates move rapidly.

The following summarizes the contribution to Rayonier's earnings from New Zealand operations after consideration of foreign exchange effects (millions of dollars):

	1999	1998	1997
Operating income (loss) on a 1997 exchange rate basis	**$(7)**	$(18)	$ 8
Effect of exchange rate changes	**–**	4	–
Operating income (loss) as reported	**(7)**	(14)	8
Gain (loss) from foreign currency forward contracts	**–**	(1)	(3)
Contribution from New Zealand operations	**$(7)**	$(15)	$ 5

Rayonier's forward contracts are intended to cover anticipated operating needs and therefore do not "hedge" firm contracts or commitments in accordance with SFAS No. 52, "Foreign Currency Translation." As a result, the gains and losses on these contracts are included in "Interest and miscellaneous income (expense), net" based on mark-to-market values at reporting dates. In 1999, the maximum foreign currency forward contracts outstanding at any point in time totaled $27.5 million. At December 31, 1999, the Company held foreign currency contracts maturing through February 2001, totaling $28 million.

Commodity Forwards

The Company periodically enters into commodity forwards to fix certain energy costs. This practice effectively eliminates the risk of a change in product margins resulting from an increase or decrease in fuel oil costs. The Company does not enter into commodity forwards for trading or speculative purposes. The net amounts paid or received under the agreements are recognized as an adjustment to fuel oil expense. There were no contracts outstanding at December 31, 1999.

Fair Value of Financial Instruments

At December 31, 1999 and 1998, the estimated fair values of Rayonier's financial instruments were as follows:

	1999	
	Carrying Amount	Fair Value
Asset (Liability)		
Cash and short-term investments	**$ 12,265**	**$ 12,265**
Debt	**(1,136,178)**	**(1,127,039)**
Foreign currency forward contracts	**(6)**	**(6)**
Interest rate swap agreements	**–**	**17**

	1998	
	Carrying Amount	Fair Value
Asset (Liability)		
Cash and short-term investments	$ 6,635	$ 6,635
Debt	(489,944)	(499,252)
Foreign currency forward contracts	–	–
Interest rate swap agreements	–	121

Rayonier uses the following methods and assumptions in estimating the fair value of its financial instruments:

Cash and Short-Term Investments - The carrying amount is equal to fair market value.

Debt - The Company's short-term bank loans and floating rate debt approximate fair value. The fair value of fixed rate long-term debt is based upon quoted market prices for these or similar issues, or rates currently available to the Company for debt with similar terms and maturities.

Foreign Currency Forward Contracts - The fair value of foreign currency forward contracts is based on dealer-quoted market prices of comparable instruments. The contracts are reported at mark-to-market values if not considered a hedge for accounting purposes.

Interest Rate Swap Agreements - The fair value of interest rate swap agreements is based upon the estimated cost to terminate the agreements, taking into account current interest rates and creditworthiness of the counterparties.

5. Gains from Sale of Assets

From time to time, Rayonier opportunistically sells non-strategic assets to monetize portions of its asset base. In October 1999, Rayonier sold a marine terminal and associated properties in Hoquiam, WA, to the Port of Grays Harbor for $9.5 million, with a gain of $7.7 million, as part of its program to divest non-strategic assets and reduce debt. In December 1997, the Company sold a 75 percent interest in approximately 6 percent of its timber holdings in New Zealand to a timber investment fund as part of a joint venture with the Company. Simultaneously, Rayonier acquired a 25 percent interest in two forests owned by the investment fund and received net cash proceeds of $11.7 million. Rayonier recorded a pretax gain of $8.4 million, $5.6 million after-tax, or 19 cents per share. Rayonier also has marketing and management responsibilities for the joint venture.

6. Smurfit Forestlands Acquisition

On October 25, 1999, Rayonier, through its subsidiary, Rayonier Timberlands Operating Company (RTOC), acquired approximately 968,000 owned and leased acres of forestland in Georgia, Florida and Alabama from Jefferson Smurfit Corporation (U.S.) (JSC) in a business combination accounted for by the purchase method. In addition, RTOC and JSC entered into a Timber Cutting Agreement whereby RTOC has agreed to sell 1.4 million tons of timber to JSC at prevailing market prices for each of the years 2000 and 2001. The acquisition cost of $716.4 million, fully allocated to forestlands and land held for resale, was financed by $485 million in installment notes issued to JSC and $232 million in cash borrowed under a bank credit facility. JSC used these forestlands primarily to provide pulpwood fiber to its paperboard mills. RTOC plans to manage the forestlands and sell standing timber on an open-market basis.

The statement of consolidated income for the year ended December 31, 1999, includes the results of operations for the acquired Smurfit forestlands from the date of acquisition, October 25, 1999 through December 31, 1999. The proforma results of operations of Rayonier for 1999 and 1998 are as follows, assuming the acquisition occurred on January 1, 1999 and 1998, respectively:

	(Unaudited)	
	1999	1998
Sales	**$1,073,207**	$1,064,286
Operating income	**137,454**	131,862
Net income	**36,525**	27,601
Diluted EPS	**1.30**	0.96

7. Rayonier Timberlands, L.P.

In the United States, Rayonier manages almost all of its forestlands and sells timber directly through Rayonier Timberlands Operating Company, L.P. (RTOC), a limited partnership created in 1985. Until January 1998, Rayonier owned 74.7 percent of the Class A Limited Partnership Units of RTOC's parent, Rayonier Timberlands, L.P. (RTLP), and the remaining 25.3 percent, or 5.06 million Class A Units, were publicly traded on the New York Stock Exchange. In January 1998, Rayonier acquired the publicly held units of RTLP in accordance with the terms of the RTLP Partnership Agreement for a cash purchase price of $13.00 per unit. The acquisition was accounted for under the purchase method and was financed by the utilization of existing credit facilities.

8. Income Taxes

The provision for income taxes consists of the following:

	1999	1998	1997
Current			
U.S. federal	**$ 20,200**	$ 5,534	$ 6,531
State and local	**1,004**	535	1,292
Foreign	**1,372**	1,687	1,709
	22,576	7,756	9,532
Deferred			
U.S. federal	**10,582**	28,815	24,652
State and local	**902**	682	540
Foreign	**(4,593)**	(10,734)	(1,396)
	6,891	18,763	23,796
	$ 29,467	$ 26,519	$ 33,328

Deferred income taxes represent the tax effects related to recording revenues and expenses in different periods for financial reporting and tax return purposes. Deferred tax assets (liabilities) at December 31, 1999 and 1998 were related to the following principal timing differences:

	1999	1998
Accelerated depreciation and depletion	**$ (154,649)**	$ (142,974)
Reserves for dispositions and discontinued operations	**32,243**	35,477
All other, net	**8,091**	651
	$ (114,315)	$ (106,846)

A reconciliation of the income tax provision at the U.S. statutory rate to the reported income tax provision follows:

	1999	1998	1997
Income tax provision at U.S. statutory rate	**$ 34,342**	$ 31,554	$ 42,226
State and local taxes, net of federal tax benefit	**1,239**	791	1,191
Foreign operations	**(2,563)**	(2,541)	(5,647)
Foreign sales corporations	**(3,100)**	(1,825)	(2,200)
Research and development tax credits	**(588)**	(1,508)	(1,675)
All other, net	**137**	48	(567)
Provision for income taxes – reported	**$ 29,467**	$ 26,519	$ 33,328
Effective tax rate – %	**30.0**	29.4	27.6

9. Net Income Per Common Share

In 1997, the Company adopted SFAS No. 128, "Earnings Per Share."

The following table provides details of the calculation of basic and diluted EPS for 1999, 1998 and 1997:

	1999	1998	1997
Net income	**$ 68,653**	$ 63,635	$ 87,319
Shares used for determining basic EPS	**27,681,845**	28,118,402	28,820,115
Dilutive effect of:			
Stock options	**253,580**	266,441	389,131
Contingent shares	**240,000**	223,708	221,250
Shares used for determining diluted EPS	**28,175,425**	28,608,551	29,430,496
Basic EPS	**$ 2.48**	$ 2.26	$ 3.03
Diluted EPS	**$ 2.44**	$ 2.22	$ 2.97

10. Inventories

Rayonier's inventories included the following at December 31, 1999 and 1998:

	1999	1998
Finished goods	$ 52,984	$ 47,109
Work in process	12,478	15,762
Raw materials	17,947	13,212
Manufacturing and maintenance supplies	21,670	22,827
	$ 105,079	$ 98,910

11. Debt

Rayonier's debt included the following at December 31, 1999 and 1998:

	1999	1998
Short-term bank loans at a weighted average rate of 7.32%	$ 92,828	$ 130,119
Commercial paper at discount rates of 6.90% to 7.50%	75,000	109,000
Medium-term notes due 2000-2001 at variable interest rates of 6.35% to 6.40%	36,000	36,000
Medium-term notes due 2001-2004 at fixed interest rates of 6.0% to 6.15%	55,000	20,000
7.5% notes due 2002	110,000	110,000
Pollution control and industrial revenue bonds due		
2000-2015 at fixed interest rates of 5.6% to 8.0%	82,350	84,650
RTOC installment notes due 2007-2014 at fixed interest rates of 8.29% to 8.64%	485,000	–
RTOC term loan due 2004 at a weighted average interest rate of 7.77%	200,000	–
All other	–	175
Total debt	1,136,178	489,944
Less:		
Short-term bank loans	828	1,619
Current maturities	2,420	2,475
Long-term debt	$ 1,132,930	$ 485,850

Rayonier has revolving credit agreements with a group of banks that provide the Company with unsecured credit facilities totaling $300 million and expiring in 2002. The revolving credit facilities are used for direct borrowings and as credit support for a commercial paper program. As of December 31, 1999, the Company had $75 million of outstanding commercial paper and $215 million of available borrowings under its revolving credit facilities. In connection with the financing of the Smurfit forestland acquisition, RTOC entered into an agreement with a group of banks that provided RTOC with revolving credit facilities totaling $75 million and expiring in 2004. As of December 31, 1999, RTOC had $43 million of available borrowings under its revolving credit facilities. In addition, through currently effective shelf registration statements filed with the Securities and Exchange Commission, Rayonier may offer up to $150 million of new public debt securities.

Required repayments of debt are as follows:

2000	$ 3,248
2001	43,185
2002	197,310
2003	2,330
2004	334,465
2005-2015	555,640
	$ 1,136,178

Medium-term notes, commercial paper and short-term bank loans totaling $187 million are classified as long-term debt because the Company has the ability and intends to refinance such maturities through continued short-term borrowings, available committed credit facilities or long-term borrowings. The most restrictive long-term debt covenant in effect for Rayonier at December 31, 1999, provided that the ratio of total debt to EBITDA not exceed 5.5 to 1 at the end of 1999 and at the end of each calendar quarter of 2000. Under the same covenant, effective March 31, 2001 and at the end of subsequent calendar quarters, that ratio cannot exceed 4.0 to 1. As of December 31, 1999, the ratio was 4.7 to 1. The most restrictive long-term debt covenants in effect for RTOC at December 31, 1999, provided that the ratio of consolidated cash flow available for fixed charges to consolidated fixed charges not be less than 1.6 to 1, and that the ratio of consolidated total debt to consolidated cash flow available for fixed charges not exceed 4.5 to 1. As of December 31, 1999, the ratios were 2.2 to 1 and 4.2 to 1, respectively. In addition, $422 million of retained earnings was unrestricted as to the payment of dividends.

12. Dispositions and Discontinued Operations

Dispositions and discontinued operations include Rayonier's Port Angeles, WA, pulp mill, which was closed on February 28, 1997; its interest in the Grays Harbor, WA, pulp and paper complex, which was closed in 1992; its wholly owned subsidiary, Southern Wood Piedmont Company (SWP), which ceased operations in 1986; Rayonier's Eastern Research Division, which ceased operations in 1981; and other miscellaneous assets held for disposition.

In the fourth quarter of 1996, Rayonier recorded a disposition charge, primarily related to the closure of the Port Angeles, WA, pulp mill. Dismantling and demolition of the mill began in 1997 and was completed in 1999. Environmental remediation at the mill site will commence in 2000 with completion expected by 2005. During 1997, Port Angeles pulp product sales contributed $3 million to operating income.

In the fourth quarter of 1996, the Company also adopted Statement of Position 96-1 "Environmental Remediation Liabilities" issued by the American Institute of Certified Public Accountants. The statement specifically identified future, long-term monitoring and administration expenditures as remediation liabilities that need to be accrued on the balance sheet as an existing obligation. These monitoring costs are expected to continue on an annual basis, plus inflation, for approximately 25-30 years as mandated by state and federal regulations. The Company's annual cash flow was not impacted by adoption of the accounting pronouncement.

As of December 31, 1999 and 1998, Rayonier had $6.9 million and $11.5 million, respectively, of receivables, net of reserves, from insurance claims included in "Other assets." Such receivables represent the Company's claim for reimbursements in connection with property damage settlements relating to SWP's discontinued wood preserving operations.

Rayonier currently estimates that expenditures during 2000-2001 for environmental remediation and monitoring costs for all dispositions and discontinued operations will total approximately $28 million. Such costs will be charged against Rayonier's reserves for estimated environmental obligations (including monitoring and remediation costs) that the Company believes are sufficient for costs expected to be incurred over the next 25-30 years with respect to dispositions and discontinued operations. At December 31, 1999, these reserves totaled approximately $169 million. The amount of actual future environmental costs is dependent on the outcome of negotiations with federal and state agencies and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Based on information currently available, the Company does not believe that any future changes in estimates, if necessary, would materially affect its consolidated financial condition or results of operations.

Reductions in reserves for dispositions, primarily related to completed projects associated with the closure of the Grays Harbor facility, that were recognized in income amounted to $1 million in 1998 and 1997.

An analysis of activity in the reserves for dispositions and discontinued operations for the three years ended December 31, 1999 follows:

	1999	1998	1997
Balance, January 1	**$181,365**	$198,862	$223,978
Expenditures charged to reserves	**(12,834)**	(16,447)	(24,216)
Reductions recognized in income	**–**	(1,050)	(900)
Balance, December 31	**$168,531**	$181,365	$198,862

The expenditures charged to reserves in 1997 and 1998 mainly reflect costs incurred in connection with the closure of the Port Angeles, WA, pulp mill.

13. Shareholders' Equity

An analysis of activity in shareholders' equity for the three years ended December 31, 1999 follows:

	Common Shares Shares	Amount	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 1997	29,282,455	$145,679	$477,711	$623,390
Net income	–	–	87,319	87,319
Dividends paid	–	–	(34,523)	(34,523)
Incentive stock plans	124,679	4,892	–	4,892
Repurchase of Common Shares	(1,123,500)	(48,396)	–	(48,396)
Balance, December 31, 1997	28,283,634	102,175	530,507	632,682
Net income	–	–	63,635	63,635
Dividends paid	–	–	(34,744)	(34,744)
Incentive stock plans	112,154	3,934	–	3,934
Repurchase of Common Shares	(628,479)	(26,548)	–	(26,548)
Balance, December 31, 1998	27,767,309	79,561	559,398	638,959
Net income	**–**	**–**	**68,653**	**68,653**
Dividends paid	**–**	**–**	**(35,669)**	**(35,669)**
Incentive stock plans	**191,652**	**4,748**	**–**	**4,748**
Repurchase of Common Shares	**(551,867)**	**(23,791)**	**–**	**(23,791)**
Balance, December 31, 1999	**27,407,094**	**$ 60,518**	**$592,382**	**$652,900**

14. Incentive Stock Plans

The 1994 Rayonier Incentive Stock Plan (the 1994 Plan) provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, performance shares and restricted stock, subject to certain limitations. Under the 1994 Plan, the Company may grant options to its employees for up to 4.5 million Common Shares. The exercise price of each option equals the market price of the Company's stock on the date of grant, and an option's maximum term is 10 years. Options vest in one-third increments over a three-year period starting from the date of grant.

Restricted stock granted under the 1994 Plan vests after three years. During 1999 and 1997, 5,000 and 2,000 restricted shares were granted with grant-date fair values per share of $45.56 and $38.13 for 1999 and 1997, respectively. No restricted shares were granted in 1998.

In 1999, 1998 and 1997, 55,500, 91,500 and 93,000 Common Shares, respectively, were reserved for contingent performance shares. The actual number of performance shares to be issued is contingent upon the Company's total shareholder return, compared with a competitive peer group of 12 companies within the forest products industry over a three-year period. The grant-date fair values of the 1999, 1998 and 1997 performance shares were $45.56, $42.63 and $38.13, respectively.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" to account for its stock plans. The compensation cost recognized was $1,252, $2,837 and $3,904 in 1999, 1998 and 1997, respectively. Under SFAS No. 123, "Accounting for Stock Based Compensation," net income and earnings per share would have been reduced by $2,343 or 8 cents per share, $1,844 or 6 cents per share and $1,431 or 5 cents per share for 1999, 1998 and 1997, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1999, 1998 and 1997, respectively: dividend yield of 3.4 percent, 3.1 percent and 3.0 percent; expected volatility of 25.7 percent for 1999, 24.1 percent for 1998 and 22.5 percent for 1997; risk-free interest rates of 4.7 percent, 5.8 percent and 6.3 percent; and an expected life of 7.5 years for all years. The weighted average fair value of options granted during the year was $10.91, $11.41 and $10.46 for 1999, 1998 and 1997, respectively.

A summary of the status of the Company's stock option plans as of December 31, 1999, 1998 and 1997, and changes during the years then ended is presented below:

	1999		1998		1997	
	Number of Shares	Weighted Average Exercisable Price	Number of Shares	Weighted Average Exercisable Price	Number of Shares	Weighted Average Exercisable Price
Options outstanding at beginning of year	**1,843,496**	**$ 34.20**	1,551,611	$ 32.05	1,268,288	$ 29.99
Granted – 1994 Incentive Stock Plan	**255,500**	**$ 45.43**	371,500	$ 42.64	370,500	$ 38.34
Exercised	**(160,349)**	**$ 29.14**	(66,618)	$ 30.12	(80,345)	$ 28.24
Canceled	**(27,005)**	**$ 42.34**	(12,997)	$ 39.87	(6,832)	$ 36.01
Outstanding at end of year	**1,911,642**	**$ 36.01**	1,843,496	$ 34.20	1,551,611	$ 32.05
Options exercisable at year-end	**1,317,190**	**$ 32.85**	1,130,690	$ 30.67	857,833	$ 29.23

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options Outstanding			
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted Average Remaining Contractual Life	Options Exercisable at 12/31/99	Weighted Average Exercise Price
$16.57 – $17.38	41,967	1.8 years	41,967	$ 17.27
$28.88 – $33.50	935,845	4.9 years	935,845	$ 31.04
$37.13 – $50.75	933,830	7.9 years	339,378	$ 39.77

15. Employee Benefit Plans

Rayonier adopted SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits" in 1998, which changed the format and required disclosures concerning benefit plans.

Employee benefit plan liabilities are estimated using actuarial estimates and management assumptions. These estimates are based on historical information, along with certain assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause these estimates to change.

Rayonier has pension plans covering substantially all of its employees. Certain plans are subject to union negotiation. All costs of the plans are paid by Rayonier. The following tables set forth net periodic benefit cost of Rayonier plans, and total pension and postretirement benefit expense for the three years ended December 31:

	Pension			*Postretirement*		
	1999	1998	1997	**1999**	1998	1997
Components of Net Periodic Benefit Cost						
Service cost	**$ 5,312**	$ 5,255	$ 4,871	**$ 438**	$ 400	$ 407
Interest cost	**8,147**	7,803	7,461	**1,341**	1,328	1,305
Actual return on plan assets	**(7,211)**	(17,807)	(21,788)	**–**	–	–
Amortization of prior service cost and deferrals	**(2,631)**	8,862	13,373	**(434)**	(434)	(434)
Amortization of (gains) losses	**142**	384	207	**618**	634	572
Net periodic benefit cost of Rayonier plans	**3,759**	4,497	4,124	**1,963**	1,928	1,850
Defined contribution plans	**2,222**	2,056	2,437	**–**	–	–
Multi-employer plans	**–**	–	–	**525**	550	592
Total pension/postretirement benefit expense	**$ 5,981**	$ 6,553	$ 6,561	**$ 2,488**	$ 2,478	$2,442

The following tables set forth the funded status of the Rayonier pension and postretirement benefit plans, the amounts recognized in the balance sheets of the Company at December 31, 1999 and 1998, and the principal weighted average assumptions inherent in their determination:

	Pension		*Postretirement*	
	1999	1998	**1999**	1998
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$ 123,770**	$ 113,407	**$ 20,546**	$ 20,405
Service cost	**5,312**	5,255	**438**	400
Interest cost	**8,147**	7,803	**1,341**	1,328
Actuarial (gain) loss	**(14,208)**	4,925	**(1,581)**	(199)
Benefits paid	**(7,360)**	(7,620)	**(1,374)**	(1,388)
Benefit obligation at end of year	**115,661**	123,770	**19,370**	20,546
Change in Plan Assets				
Fair value of plan assets at beginning of year	**130,170**	119,862	**–**	–
Actual return on plan assets	**7,211**	17,698	**–**	–
Employer contribution	**162**	748	**1,374**	1,388
Other expense	**(437)**	(518)	**–**	–
Benefits paid	**(7,360)**	(7,620)	**(1,374)**	(1,388)
Fair value of plan assets at end of year	**129,746**	130,170	**–**	–
Reconciliation of Funded Status at End of Year				
Funded status	**14,085**	6,400	**(19,370)**	(20,546)
Unrecognized prior service cost	**9,493**	10,582	**(3,083)**	(3,517)
Unrecognized actuarial net (gain) loss	**(25,770)**	(14,837)	**7,392**	9,591
Unrecognized net transition obligation	**(2,183)**	(2,844)	**–**	–
(Accrued) prepaid benefit cost	**$ (4,375)**	$ (699)	**$(15,061)**	$ (14,472)
Weighted Average Assumptions as of December 31				
Return on plan assets	**9.75%**	9.75%	**–**	–
Rate of compensation increase	**5.00%**	5.00%	**–**	–
Ultimate health care trend rate	**–**	–	**5.50%**	5.00%
Discount rate	**7.75%**	6.75%	**7.75%**	6.75%

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 6 percent for 1999, decreasing ratably to 5.5 percent in the year 2001. The following table shows the effect of a one percentage point change in assumed health care cost trends on:

	1 Percent Increase	Decrease
Year end benefit obligation	$744	$(710)
Total of service and interest cost components	$ 63	$ (60)

16. Commitments

The Company leases certain buildings, machinery and equipment under various operating leases. As of December 31, 1999, minimum rental commitments under operating leases were $5,878, $10,378, $1,877, $1,487 and $1,373 for 2000, 2001, 2002, 2003 and 2004, respectively. For the remaining years, such commitments amount to $3,274, aggregating total minimum lease payments of $24,267. Total rental expense for operating leases amounted to $7,173, $7,383 and $7,545, in 1999, 1998 and 1997, respectively. Additionally, the Company has indirectly guaranteed approximately $18.1 million of debt that is secured by equipment used by its vendors to provide products to the Company.

The Company has long-term leases on certain forestlands for use in its forestland business in the Southeast U.S. These leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. Such leases are generally non-cancellable and require minimum annual rental payments. As of December 31, 1999, the future minimum lease payments were $4,472, $4,472,

$4,353, $4,284 and $4,086 for 2000, 2001, 2002, 2003 and 2004, respectively. For the remaining years, such commitments amount to $79,719 aggregating total minimum lease payments of $101,386 with an average remaining term of 17 years.

17. Contingencies

From time to time, Rayonier may become liable with respect to pending and threatened litigation and environmental and other matters.

Legal Proceedings

Rayonier has been designated a potentially responsible party (PRP), or has had other claims made against it, under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and/or comparable state statutes at seven sites, all of which relate to operations classified under "Dispositions and Discontinued Operations." Cost recovery actions against Rayonier and other PRPs are pending with respect to three of these sites. Rayonier has entered into or is in the process of negotiating consent orders for environmental remediation at five of these sites. Rayonier believes that an appropriate provision for remediation costs is included in its reserves for estimated environmental obligations, including the reserves for dispositions and discontinued operations. *See Note 12.* In addition, there are various lawsuits pending against or affecting Rayonier and its Subsidiaries, some of which involve claims for substantial sums, but whose outcomes are not expected to materially impact the Company's consolidated financial position or results of operations.

Environmental Matters

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal that, in the opinion of management, will require substantial expenditures over the next 10 years. During 1997, the EPA finalized its Cluster Rules governing air emissions but, due to the specialty nature of Rayonier's products and operations, postponed finalizing water discharge rules and certain air emissions rules governing the Company's pulp mills. The Company continues to work with the EPA to establish such rules for the pulp mills, but the timing and costs associated with such rulemaking are uncertain. In the opinion of management, future capital costs associated with existing environmental rules will not have a material impact on the Company's consolidated financial position or results of operations.

Federal, state and local laws and regulations intended to protect threatened and endangered species as well as wetlands and waterways limit and may prevent timber harvesting, road building and other activities on the Company's forestlands. Over the past several years, the harvest of timber on private lands in the state of Washington has been restricted as a result of the listing of several species of birds and fish under the Endangered Species Act. The Company, through industry groups, has worked with the state of Washington to implement workable protective measures with respect to several endangered species. The effect has been to restrict harvesting on portions of the Company's Washington forestlands. The Company has taken account of these restrictions in its harvest plans. Such efforts are ongoing and, in the opinion of management, will not have a material impact on the Company's consolidated financial position or results of operations.

18. Quarterly Results for 1999 and 1998 (Unaudited)

	Quarter Ended				
Thousands of dollars, except per share amounts	March 31	June 30	Sept. 30	Dec. 31	Total Year
1999					
Sales	**$ 226,396**	**$ 258,023**	**$ 255,453**	**$ 295,999**	**$1,035,871**
Operating income	**29,444**	**33,751**	**32,113**	**40,422**	**135,730**
Net income	**15,130**	**17,077**	**17,134**	**19,312**	**68,653**
Basic EPS	**.54**	**.62**	**.62**	**.70**	**2.48**
Diluted EPS	**.54**	**.60**	**.61**	**.69**	**2.44**
1998					
Sales	$ 225,414	$ 254,011	$ 258,740	$ 270,401	$1,008,566
Operating income	34,157	35,172	25,368	29,426	124,123
Net income	18,196	18,440	12,841	14,158	63,635
Basic EPS	.64	.65	.46	.51	2.26
Diluted EPS	.63	.64	.45	.50	2.22

Report of Independent Public Accountants

To the Shareholders of Rayonier Inc.

We have audited the accompanying consolidated financial statements of Rayonier Inc. (a North Carolina corporation) and subsidiaries as of December 31, 1999 and 1998, and for each of the three years in the period ended December 31, 1999, as set forth on pages 23 through 37 of this report. These financial statements are the responsibility of Rayonier's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, the financial statements referred to above present fairly, in all material respects, the financial position of Rayonier Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Stamford, Connecticut

January 19, 2000

Report of Management

To Our Shareholders

Rayonier management is responsible for the preparation and integrity of the information contained in the accompanying financial statements. The statements were prepared in accordance with generally accepted accounting principles and, where necessary, include amounts that are based on management's best judgments. Rayonier's system of internal controls includes accounting controls and an internal audit program. This system is designed to provide reasonable assurance that Rayonier's assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, and fraudulent financial reporting is prevented or detected.

Rayonier's internal controls provide for the careful selection and training of personnel and for appropriate divisions of responsibility. The controls are documented in policies, procedures and a written code of conduct that are communicated to Rayonier's employees. Management continually monitors the system of internal controls for compliance. Rayonier's independent public accountants, Arthur Andersen LLP, evaluate and test internal controls as part of their annual audit and make recommendations for improving internal controls. Management takes appropriate action in response to each recommendation. The Board of Directors and the officers of Rayonier monitor the administration of Rayonier's policies and procedures and the preparation of financial reports.

W. L. Nutter

W.L. Nutter
Chairman, President and Chief Executive Officer

Gerald Pollack

Gerald J. Pollack
Senior Vice President and Chief Financial Officer

Eleven-Year Summary

Rayonier Inc. and Subsidiaries

Dollar amounts in millions	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Operations											
Sales	**$1,036**	$1,009	$1,104	$1,178	$1,260	$1,069	$ 936	$ 974	$ 979	$1,104	$1,082
Operating income before provision for dispositions	**136**	124	166	159	234	169	130	102	97	190	224
Provision for dispositions	**—**	—	—	(125)[a]	—	—	(3)	(189)[b]	—	—	2
Operating income (loss)	**136**	124	166	34	234	169	127	(87)	97	190	226
Income (loss) from continuing operations	**69**	64	87	(—)	142	70	52	(81)	44	109	128
Provision for discontinued operations	**—**	—	—	(98)[c]	—	—	—	—	—	(43)	—
Cumulative effect of accounting changes	**—**	—	—	—	—	—	—	(22)	—	—	—
Net income (loss)	**69**	64	87	(98)	142	70	52	(103)	44	66	128
Financial Condition											
Total assets	**$2,280**	$1,601	$1,596	$1,598	$1,648	$1,524	$1,488	$1,487	$1,382	$1,366	$1,330
Total debt	**1,136**	490	426	433	450	483	498	403	205	173	181
Book value	**653**	639	633	623	769	655	606	676	797	772	767
Cash Flow											
Cash flow from operations	**$ 217**	$ 157	$ 253	$ 236	$ 213	$ 190	$ 118	$ 133	$ 132	$ 193	$ 188
Total capital expenditures	**95**	95	137	187	143	101	72	97	134	100	80
Custodial capital spending[1]	**69**	58	72	83	72	67	65	92	100	83	58
Depreciation, depletion and amortization	**105**	101	99	97	96	90	78	78	69	64	64
EBITDA[2]	**246**	226	237	236	303	229	187	156	147	234	271
EBIT[3]	**141**	125	138	139	207	139	109	78	78	170	207
Free cash flow[4]	**121**	66	122	119	107	90	36	24	11	31	76
Dividends paid	**36**	35	35	34	30	21	122[d]	18	20	61	48
Performance Ratios											
Operating income to sales[5]	**13%**	12%	15%	13%	19%	16%	14%	10%	10%	17%	21%
Return on equity[6]	**11%**	10%	14%	—	20%	11%	8%	(11)%	6%	14%	18%
Return on assets[6]	**4%**	4%	5%	—	9%	5%	4%	(6)%	3%	8%	10%
Debt to capital	**64%**	43%	40%	41%	37%	43%	45%	37%	20%	18%	19%
Other											
Number of employees	**2,300**	2,300	2,500	2,700	2,900	2,700	2,600	2,800	3,000	3,100	3,100
Forestlands, in thousands of acres	**2,422**	1,447	1,452	1,462	1,473	1,501	1,495	1,496	1,266	1,261	1,262

a) Includes a charge of $125 million ($79 million after-tax) related to the closure of the Port Angeles pulp mill and write-off of other non-strategic assets

b) Includes a $180 million ($115 million after-tax) charge related to the disposition of the Grays Harbor Complex

c) Includes an after-tax charge to implement AICPA Statement of Position 96-1 related to future environmental monitoring costs

d) Includes a $90 million special dividend paid to ITT

1) Custodial capital spending is defined as capital expenditures to maintain current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition, and in compliance with regulatory requirements.

2) EBITDA is defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization.

3) EBIT is defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense and income taxes.

4) Free cash flow is defined as income from continuing operations plus depreciation, depletion and amortization, deferred income taxes and changes in working capital, less custodial capital spending and prior-year dividend levels.

5) Based on operating income before provision for dispositions

6) Based on income (loss) from continuing operations, including charges for pulp mill dispositions

Board of Directors

Rand V. Araskog, 68, is retired Chairman and Chief Executive Officer of ITT Corporation. He is a Director of The Hartford Financial Services Group, Inc., ITT Industries, Inc., Dow Jones & Company, Inc., Shell Oil Company and ITT Educational Services, Inc. Mr. Araskog is a graduate of the US Military Academy at West Point and attended Harvard University, Graduate School of Arts and Sciences.

Ronald M. Gross, 66, is Chairman Emeritus and former Chairman and Chief Executive Officer. He joined Rayonier in 1978 as President and Chief Operating Officer and a Director, was elected Chief Executive Officer in 1981 and Chairman in 1984. Upon his retirement, he was named Chairman Emeritus. He is a Director of The Pittston Company and Corn Products International, Inc. Mr. Gross is a graduate of Ohio State University and Harvard University, Graduate School of Business Administration.

Paul G. Kirk, Jr., 62, is of counsel to Sullivan & Worcester, a law firm. He is Chairman and Treasurer and a Director of Kirk & Associates, Inc. He is also a Director of The Hartford Financial Services Group, Inc., Hartford Life, Inc. and Bradley Real Estate, Inc. He is Co-Chairman of the Commission on Presidential Debates. Mr. Kirk is a graduate of Harvard College and Harvard Law School.

W. Lee Nutter, 56, is Chairman, President and Chief Executive Officer. He joined Rayonier in 1967 and was elected Vice President in 1984, Senior Vice President in 1986, Executive Vice President in 1987, President and Chief Operating Officer and a Director in 1996 and Chairman, President and Chief Executive Officer effective January 1, 1999. Mr. Nutter is a graduate of the University of Washington and the Harvard Graduate School of Business Administration Advanced Management Program.

Katherine D. Ortega, 65, is former Treasurer of the United States. She is a Director of Ultramar Diamond Shamrock Corporation, Ralston Purina Company and The Kroger Co. and is a member of the Advisory Board of Washington Mutual Investors Fund, Inc. Ms. Ortega is a graduate of Eastern New Mexico University and holds three honorary Doctor of Law degrees and an honorary Doctor of Social Science degree.

Burnell R. Roberts, 72, is retired Chairman and Director of Sweetheart Holdings, Inc. and Sweetheart Cup Company. He is also retired Chairman and Chief Executive Officer of The Mead Corporation. He is a Director of DPL Inc. and VUTEK, Inc. and a trustee of Granum Value Fund. Mr. Roberts is a graduate of the University of Wisconsin and Harvard University, Graduate School of Business Administration.

Carl S. Sloane, 63, is Ernest L. Arbuckle Professor of Business Administration at Harvard University, Graduate School of Business Administration. He is a Director of Ionics, Inc., The Pittston Company and Sapient Corporation. Mr. Sloane is a graduate of Harvard College and Harvard University, Graduate School of Business Administration.

Nicholas L. Trivisonno, 52, is Chairman and Chief Executive Officer and a Director of ACNielsen Corporation, a global marketing information services company. Mr. Trivisonno is a graduate of St. Francis College, Brooklyn, New York.

Gordon I. Ulmer, 67, is retired President of the Bank of New England Corporation. He is a Director of The Hartford Financial Services Group, Inc. and Hartford Life, Inc. Mr. Ulmer is a graduate of Middlebury College, the American Institute of Banking and the Harvard Graduate School of Business Administration Advanced Management Program and attended New York University, Graduate School of Engineering.

Officers

Board Committees

Audit Committee
Gordon I. Ulmer, Chairman
Rand V. Araskog
Katherine D. Ortega
Carl S. Sloane

Compensation and Management Development Committee
Burnell R. Roberts, Chairman
Paul G. Kirk, Jr.
Carl S. Sloane
Nicholas L. Trivisonno

Finance Committee
Ronald M. Gross, Chairman
Rand V. Araskog
W. Lee Nutter
Burnell R. Roberts
Gordon I. Ulmer

Nominating Committee
Paul G. Kirk, Jr., Chairman
Katherine D. Ortega
Nicholas L. Trivisonno

Members of the Board,
from left to right:
Carl S. Sloane
Nicholas L. Trivisonno
Paul. G. Kirk, Jr.
W. Lee Nutter
Burnell R. Roberts
Rand V. Araskog
Ronald M. Gross
Katherine D. Ortega
Gordon I. Ulmer

W. Lee Nutter, 56
Chairman, President and
Chief Executive Officer (32)

William S. Berry, 58
Executive Vice President,
Forest Resources and
Wood Products (19)

William A. Kindler, 57
Senior Vice President,
Specialty Pulp (3)

John P. O'Grady, 54
Senior Vice President,
Administration (8)

Gerald J. Pollack, 58
Senior Vice President and
Chief Financial Officer (17)

Paul G. Boynton, 35
Vice President,
Specialty Pulp Marketing
and Sales (1)

Timothy H. Brannon, 52
Vice President,
Asia Pacific
Managing Director,
Rayonier New Zealand (27)

Richard B. Chapas, 54
Vice President,
New Products (5)

Royce B. Daniel, 48
Vice President,
Research and Development (25)

William D. Ericksen, 55
Vice President,
Forest Resources and
Wood Procurement (28)

Jay A. Fredericksen, 54
Vice President,
Corporate Relations (23)

George C. Kay, 50
Vice President and
Corporate Controller (1)

Charles Margiotta, 47
Vice President,
Corporate Development
and Strategic Planning (23)

Grant J. Munro, 51
Vice President,
Forest Resources and Trading (18)

Lisa M. Palumbo, 41
Vice President and
General Counsel (2)

Eric W. Schrumm, 52
Vice President,
Information Technology (5)

Macdonald Auguste, 51
Treasurer (24)

John B. Canning, 56
Corporate Secretary and
Associate General Counsel (22)

( ) Years of service with Rayonier
Average length of service: 16 years

Shareholder Information

About Your Shares

Rayonier Common Shares are listed on the New York Stock Exchange under the ticker symbol RYN. The shares are generally listed by the financial press in NYSE stock tables under the name RayInc.

Shareholders of Record

Rayonier had 21,969 shareholders of record as of February 29, 2000.

Common Stock Activity

	High	Low	Composite Volume 100s	Dividend
1999				
Fourth Quarter	**48 9/16**	**36 1/4**	**51486**	**$.36**
Third Quarter	**52 7/8**	**36 11/16**	**52336**	**.31**
Second Quarter	**51 3/16**	**39 5/16**	**36273**	**.31**
First Quarter	**46 7/8**	**38 3/4**	**31249**	**.31**
1998				
Fourth Quarter	46 1/4	37 1/4	37896	$.31
Third Quarter	48	36 5/8	38906	.31
Second Quarter	52 1/2	43 1/8	56350	.31
First Quarter	48 1/2	40 1/4	52474	.31

Dividend Reinvestment

The Rayonier Inc. Automatic Dividend Reinvestment and Cash Payment Plan is available to all registered shareholders. For information on how to participate, contact The Bank of New York, 800-432-0140. Outside the US, call collect, 610-312-5303.

Transfer Agent and Registrar

For essential services such as change of address, lost certificates or dividend checks, or change in registered ownership, write or call The Bank of New York, Shareholder Relations Department – 11E, PO Box 11258, Church Street Station, New York, NY 10286-1258. Telephone, 800-432-0140. Outside the US, call collect, 610-312-5303.

Please include your name, address, account number and telephone number with all correspondence.

Send certificates for transfer and address changes to The Bank of New York, Receive and Deliver Department – 11W, PO Box 11002, Church Street Station, New York, NY 10286-1002.

Investor Relations Program

For questions concerning your Common Shares other than those noted above, write or call the Investor Relations Department, Rayonier Inc., 50 North Laura Street, Jacksonville, FL 32202. Telephone, 904-357-9100.

Additional copies of this Annual Report and copies of Rayonier's SEC Form 10-K (without exhibits) are available, without charge, upon request from the Corporate Secretary at the above address. Or you may order materials by calling toll free, 800-RYN-7611.

In order to reduce costs and deliver information to shareholders faster, Rayonier does not automatically mail quarterly reports to shareholders. You can hear a recording of our latest financial results and request a copy by fax or by mail, by calling 800-RYN-7611. Quarterly results are available the same day that they are announced.

Web Sites

Rayonier posts press releases, earnings and dividend news on its Web site on the Internet. The address is http://www.rayonier.com.

The Bank of New York has a Stock Transfer site at http://stock.bankofny.com with information on dividend reimbursement and stock transfer, including frequently asked questions.

Annual Meeting

The Annual Meeting of Rayonier shareholders will be held at 4 p.m., Thursday, May 18, 2000 at the Omni Jacksonville Hotel, 245 Water Street, Jacksonville, FL.