

A New Focus



Rayonier

2000 Annual Report

Rayonier is a global supplier of timber and high performance specialty cellulose with customers in 60 countries. The company has 2.3 million acres of timberland in the U.S. and New Zealand.

Financial Highlights

Millions, except per share amounts	2000	1999	% change
Sales and Earnings			
Sales	\$ 1,227	\$ 1,108	+11%
Operating income	190	136	+40%
Net income	78	69	+14%
Financial Condition			
Total assets	\$ 2,162	\$ 2,280	-5%
Total debt	973	1,136	-14%
Book value	680	656	+4%
Cash Flow			
Cash flow from operations	\$ 279	\$ 213	+31%
Capital expenditures	90	95	-5%
EBITDA	393	253	+55%
Free cash flow	205	121	+69%
Dividends	39	36	+10%
Number of Shares of Common Stock Outstanding			
	27.1	27.4	-1%
Per Share			
Net income	\$ 2.82	\$ 2.44	+16%
EBITDA	14.19	8.98	+58%
Book value	25.09	23.94	+5%
Dividends	1.44	1.29	+12%
Performance Ratios			
Operating income to sales	15%	12%	
Return on equity	12%	11%	
Return on assets	4%	4%	
Debt to capital	59%	63%	
Debt to market capital	47%	46%	

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About the Cover

Our new focus on two core businesses is represented by a pine seedling from our 2.3 million acres of timberland, surrounded by new products from Performance Fibers – NovaThin™ absorbent cores for disposable sanitary products and a beaker of fibers for reinforcing plastics used in automotive parts.

We will focus our management and resources on our two core businesses.



Focus:

With 75 years in business, we know that successful companies are the ones that are able to adapt to constantly changing conditions. To meet the needs of today's dynamic business world, we are concentrating our strategic focus, management and capital resources on Performance Fibers and Timberland Management — the core businesses in which we have global leadership positions and which provide us with the best platform for growth, enhanced financial performance, and increased shareholder value.

Letter to Shareholders: We had a good year, except for one thing. Our share price not only didn't keep pace with our financial performance, it declined. By nearly every other measurement, 2000 was better than 1999:

- Net income was up 13.9 percent while earnings per share increased 15.7 percent.
- EBITDA increased 55.3 percent and free cash flow was up 69.4 percent.
- Return on equity was 11.7 percent vs. 10.6 percent in 1999.
- We fully assimilated almost one million acres of timberland purchased in late 1999.
- Debt from the \$710 million timberland purchase was reduced by \$163 million, and the debt-to-capital ratio was lowered from 63.4 percent to 58.9 percent.
- We paid a dividend of \$1.44 per share and repurchased 433,000 shares of our common stock.

In today's dynamic world, it is critical that we concentrate our resources on those business segments in which we hold a leadership position.

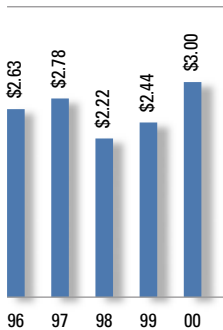
- We relocated, under budget, our headquarters from Stamford, CT, to Jacksonville, FL, and began to realize the synergies of being in the Southeast U.S. where we have 75 percent of our assets and 80 percent of our employees.

All in all, a record of solid accomplishment in a challenging economic environment.

Although our stock performance was on par with the industry average, the decline was especially disappointing given our other achievements. Let me assure you, as shareholders ourselves – Rayonier employees and directors beneficially own more than 8 percent of the company's shares – we will not be satisfied with a share price that does not reflect the full underlying value of our company.



W. Lee Nutter
Chairman, President and
Chief Executive Officer



Earnings per Share

Excludes non-recurring charges (1996, 2000) and non-recurring gains (1997, 2000).

Earnings improved due to strong results from Performance Fibers and land sales.

To enhance financial returns, we made the strategic decision late last year to focus our financial and management resources on our two core businesses – Performance Fibers and Timberland Management – where we have leadership positions and can extract maximum value for our shareholders. In 2000, these businesses provided two-thirds of our revenue and 120 percent of operating income.

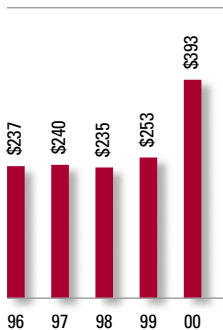
We carefully studied forming a timberland REIT, but decided that, with weak equity markets and high interest rates, it was not the right time. The potential gains did not then justify the economic penalties associated with establishing and maintaining such an entity. Our two core businesses on a combined basis generate significant financial, legal, and organizational synergies. The balance these businesses give us, and their strong cash flow, provide us with an excellent platform for growth and financial stability. Within those businesses we are moving strategically to implement programs that will create additional value, which I will address later in this message and which are highlighted elsewhere in this report. But, first, let me touch on our financial performance in 2000.

Financial Overview

Net income was up as strong results from Performance Fibers offset soft conditions in Timberland Management and the worst prices seen for lumber in a decade. Including special items in both years, 2000 net income was \$78.2 million, or \$2.82 per share, compared to \$68.7 million, or \$2.44 per share in 1999.

Rayonier’s very strong cash flow increased significantly in 2000 due to capital spending held below depreciation in Performance Fibers, the additional cash flow generated from harvesting our new timberland, and the sale of select timberlands. EBITDA in 2000 was \$393 million, or \$14.19 per share, compared to \$253 million, or \$8.98 per share, in 1999.

We used that strong cash flow to reduce debt by \$163 million, pay \$39 million in dividends, repurchase 433,000 shares for \$18 million, and fund a \$90 million capital investment program to maintain and upgrade our manufacturing facilities and to replant and increase the productivity of our timberlands. In the near term, we will continue to aggressively reduce debt, thus providing the financial flexibility to pursue additional strategic growth opportunities that will enhance shareholder returns.



EBITDA

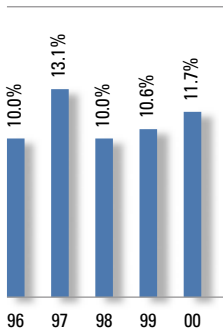
(millions)

Cash flow, as measured by EBITDA, improved substantially due to increased land sales and the effect of the 1999 major timberland acquisition.

Performance Fibers

Because of the specialty nature of this business, operating income is much more stable than for most companies in our industry. Over the last several years, we have been dedicated to increasing financial performance through cost reduction and product innovation. This is being achieved by leveraging our long history of technical excellence, by incorporating sophisticated information technology systems throughout our production processes, and by adding top scientists to our world-class research center.

As part of our corporate repositioning strategy, we renamed our specialty pulp products group Performance Fibers to more accurately reflect not only the high performance products we produce for existing markets – and our longtime leadership position there – but our drive to develop new products for new markets with even higher profit and growth potential. We are doing this by tapping the expertise of the world’s foremost collection of scientists devoted to wood chemistry, whom we have assembled at our research center in Jesup, Georgia. Their efforts have already produced one success story – NovaThin™ – a highly absorbent core now used in feminine care products marketed in Europe, China, Japan, and Latin America, and



Return on Equity

Excludes non-recurring charges (1996, 2000) and non-recurring gains (1997, 2000).

Return on equity continued to exceed the industry average.

soon in North America. To meet the growing demand, we are constructing a \$15 million, 12,000-ton per year, state-of-the-art, production facility in Jesup. The R&D pipeline is full of other new products in various stages of commercialization.

We have come a long way since 1997 when we said we would likely withdraw from this business if we could not achieve an acceptable return on the capital employed. That year we announced a program to increase annual pre-tax income by \$35 to \$40 million within five years. The objective was to achieve real cost reductions and product mix enhancement. It was not tied to product price changes. After four years, we have achieved \$38 million in annual improvements and remain confident that we will continue adding to that.

As a result of these efforts, and some price improvement, Performance Fibers operating income more than doubled from \$39 million in 1999 to \$83 million in 2000.

Timberland Management

With 2.3 million acres of timberland in the Southeast and Northwest U.S. and New Zealand, Rayonier has some of the world’s most productive timberland with proximity to key domestic and international markets. These holdings produce consistently strong earnings and cash flow through our process of selling timber on the open market to the highest bidder.

Harvests and cash flow increased significantly in 2000 as we began to realize the benefits of our large timberland purchase of late 1999 and initiated our program to capture the intrinsic value of our timberland through routine land sales.

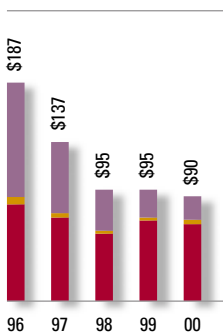
So far, our strong performance and the value of our timberlands are not being reflected in our share price. Given recent transaction prices, our timberlands alone are worth approximately \$2.4 billion, or \$33 per share after tax and the assignment of all company debt.

Our focus, therefore, is on how to obtain for our shareholders more of that unrealized, and growing, value. Our strategy is to annually sell between 2 and 4 percent of our 2.3 million acres (46,000 to 92,000 acres) to capture the appreciated value on a routine basis and further increase our earnings and cash flow. To maintain current harvest levels over time, we will periodically and opportunistically purchase timberlands when they can be obtained at a discount to long-term price trends. With prudent buying and selling, and a very favorable cost basis on our properties, we expect this program to generate strong returns.

Non-Core Businesses

By focusing on two core businesses, we are de-emphasizing the amount of management time and capital that will be expended in our wood products and trading businesses, relatively small pieces of our portfolio. We are exploring strategic alternatives for our New Zealand medium-density fiberboard plant, including a possible sale. We believe that it will be better served if owned or managed by a company with more relative size in this industry segment.

While we are not planning to further expand our lumber business – three Southeast U.S. mills – neither do we have plans to sell those facilities. Our exposure in this volatile and cyclical commodity is relatively small. With lumber prices at 10-year lows, it is a time to hold a steady course. We have challenged our lumber business managers to further drive down costs and refine their marketing strategy so as to be positioned to take full advantage of the pricing turnaround when it inevitably occurs. Meanwhile, the mills do contribute by providing residual



Capital Expenditures
(millions)

- Earnings growth
- Environmental
- Custodial

Capital expenditures were held far below depreciation, depletion and amortization levels.

chips to our Performance Fibers mills and by adding to the demand for timber sold from our 1.7 million acres of Southeast holdings.

The other non-core business is International Forest Products, which primarily purchases and sells logs and wood products around the Pacific Rim. While margins are small, this business provides us with valuable global market coverage and requires relatively small amounts of capital and management attention.

U.S. State Department Award for Corporate Excellence

During our 75-year company history, we have taken pride in always operating to the highest standards. Therefore, we were very pleased when U.S. Secretary of State Madeleine Albright in December presented Rayonier with the State Department's 2000 Award for Corporate Excellence for "practices that significantly advanced a positive image of the United States."

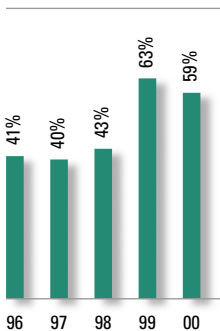
These two businesses give us great balance
and provide the greatest opportunity for earnings growth
and increased shareholder value.

The prestigious award cited Rayonier for good governance and exemplary employment practices in New Zealand.

Looking Ahead

With a slowing U.S. economy, the outlook for 2001 is uncertain. Timber and lumber markets remain soft, and we have recently seen downward pricing pressure on fluff pulps, which had risen 30 percent last year. Still, we think our Performance Fibers results will be solid due to continued stable pricing for our high-value chemical cellulose products – about half of this group's business – our ongoing profit improvement program, and new product development. Even with soft markets, Timberland Management results should be relatively strong, as harvests increase in the Southeast due to the major timberland purchase and as we implement our strategy of annually selling a small percentage of our ownership.

During 2001, Rayonier is celebrating its 75th anniversary. To be successful for that many years, we have obviously been doing something right. Throughout our history, our employees have shown an ability to adapt to change while consistently producing financial returns better than most in our industry. Our culture is one of quality, innovation, and absolute focus on the bottom line. By concentrating on the core businesses that provide the best platform for growth, increased earnings and shareholder returns, we will continue to build on our long history of being one of the very best companies in the forest products industry.



Debt to Capital

Debt was reduced by \$163 million in 2000.

W. L. Nutter

Chairman, President and Chief Executive Officer

March 12, 2001

In Performance Fibers, we are developing innovative, higher value-added products.



Focus:

Rayonier is the world's premier supplier of high performance specialty cellulose fibers used in textiles, film, impact-resistant plastics, pharmaceuticals, cosmetics, food products, paints, filters, disposable absorbent products, and even rocket propellants. The specialty nature of our business has provided more consistent earnings than for most others in our industry. Our focus is on leveraging our renowned research and technical expertise to further improve financial returns through process improvement and product innovation.



Strategy:

To further improve profitability and achieve returns that exceed our cost of capital, we are following two parallel strategic paths: doing better with what we have and broadening our product and market base. Our investments and resources are targeted at improving process efficiency and quality, while developing innovative, value-added products for new markets that will generate significant growth in revenue and earnings. We are well on our way.



Long a leader in research devoted to the science of wood chemistry, we have bolstered our capability by hiring some of the top minds in the business and charging them with developing products that have high profit and growth potential. They have patented a number of products, including our NovaThin™ absorbent core now being used in feminine care products and disposable diapers, and fibers for reinforcing thermoplastics used in automotive parts.



Performance Fibers



Over 75 years Rayonier has built a reputation as the world's premier supplier of specialty pulps used in such products as photographic film, high-impact plastics, cosmetics, food, cigarette filters, tire cord and textiles. Our Cellulose Specialties group has approximately 50 percent of the world market for these high-value applications. About 55 percent of the 720,000 tons of the specialty fibers produced each year at our two mills in Jesup, Georgia, and Fernandina Beach, Florida, go to these markets. While growth in these markets has been modest, demand and pricing are far more stable than for commodity paper and fluff pulps.

Our other major product group in Performance Fibers is Absorbent Materials, which has a 10 percent share of the world market for fluff pulps used in diapers, feminine hygiene and adult incontinence pads, and other disposable absorbent products. About 45 percent of our production goes into these products. Although these markets are growing, they are very competitive and price sensitive.

While operating income of Performance Fibers is more consistent than for most in the industry, we are working hard to further improve profitability and achieve returns that consistently exceed our cost of capital. To meet this objective, we are following two parallel strategic paths: doing better with what we have and broadening our product and market base.

To achieve the former, we have made significant investments in process control and automation to increase efficiency and quality, and we are improving product mix. Over the last four years, we have increased annual profitability by \$38 million, independent of pricing improvements.

With strong research, we are a leading provider of innovative solutions to both the fluid management and structural design markets.

At our state-of-the-art research center, scientists are focused on broadening our base by developing innovative value-added products for new markets that yield significant growth in revenue and earnings. One recent success is our NovaThin™ absorbent core for use in diapers, feminine care and adult incontinent products that are more comfortable to the consumer and cost-effective for our customers. Demand is steadily growing, underpinned by a contract with a major global consumer products company. As a result, we are constructing a 12,000-ton per year production facility, to be completed later this year. The plant will also serve as a research platform for future generations of absorbent products.

Other high-potential products are undergoing customer testing. These include fibers for reinforcing thermoplastics used in automotive parts and high-purity products for digital flat screen consumer electronics. Our materials will not only lower costs for our customers, but will also improve the performance of their products.

Our emphasis on real cost reduction, process and quality improvement, product innovation and new markets has clearly been paying off. We have seen a significant increase in operating income from point to point in the economic cycles of the Performance Fibers business. We are confident this strategy will further enhance long-term profitability and cash flow.

In Timberland Management,
our objective is to
pull market value forward.



Focus:

Rayonier is a major timberland owner with 2.3 million acres in Georgia, Florida, Alabama, Washington and New Zealand. While these highly productive properties consistently provide solid earnings and very strong cash flow, the full asset value has not been reflected in our share price. Our focus, therefore, is how to capture more of that value for our shareholders on an ongoing basis.



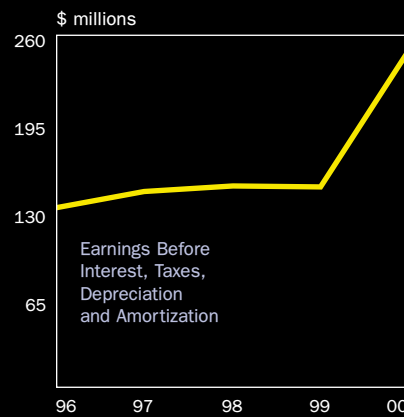
Strategy:

With a timberland asset value that is not fully reflected in our share price, we are committed to obtaining more of that value for investors. In addition to our highly successful auctions of timber to be harvested, we will annually sell between 2 and 4 percent of our land base to routinely capture the appreciating value. To maintain harvest levels, we will periodically and opportunistically purchase timberland.

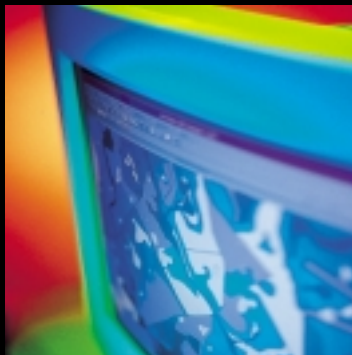


Timberland Management

**Timberland Management
EBITDA Climbs**



We improve growth rates through sophisticated forest management practices utilizing state-of-the-art research and information technology. Over the last 15 years volume yields per acre have risen by nearly 2 percent per year. Coupled with increased harvests due to our large timberland purchase in 1999, our auction process and land sales program, EBITDA rose to a record \$9.05 per share in 2000.



With the purchase of nearly one million acres of Southeast U.S. timberland in late 1999, Rayonier is the 7th-largest private timberland owner in the U.S. and has a total of 2.3 million highly productive acres in the U.S. and New Zealand. We also provide timber management and marketing services to owners of 123,000 acres in New Zealand and Australia.

The location of our timberland in key demand areas and our long-standing auction process ensure strong earnings and cash flow. With our recent purchase, Timberland Management EBITDA rose from \$5.25 per share in 1999 to \$9.05 per share in 2000.

Rayonier also optimizes returns by continually improving productivity and yields through research and innovative forest management. Our sophisticated computerized Geographic Information System program enables us to determine how best to optimize the value of each of our 2.3 million acres – depending on soil conditions, climate and biological considerations – and when to harvest.

We are committed to capturing more of the full timberland asset value than is currently reflected in our equity valuation.

However, our share price has clearly not reflected the full value of this asset. Based on recent transactions, our timberland is worth an estimated \$2.4 billion, or \$33 per share, after tax and the assignment of total company debt. To capture more of that value for our shareholders on a routine and ongoing basis, our strategy is to sell annually between 2 and 4 percent (46,000 and 92,000 acres) of our holdings. For illustration purposes only, if the 2 percent sold was from Southeast U.S. properties, using recent transaction prices and our average cost basis, it is estimated that operating income would increase by approximately \$15 million, or 35 cents in earnings per share, and EBITDA would increase by approximately \$40 million. Actual results will depend on the numbers of acres sold, location, cost basis and market conditions. Also, timing of the sales will vary during the year.

To maintain our land base and harvest levels, timberlands will be replaced periodically when they can be acquired at a discount to long-term market trends.

We will continue to manage to the highest environmental standards. As a member of the American Forest and Paper Association, we subscribe to the Sustainable Forestry InitiativeSM, a comprehensive system of environmental principles and performance measures to ensure long-term viability of forests and protection of water and wildlife. To further demonstrate our commitment, we have asked an independent firm to provide third-party certification that our timberland is managed in an environmentally responsible manner. We are confident that we will pass with flying colors. After all, not long ago, we were awarded Washington State's top environmental honor for our forest practices. Also, we have already achieved ISO 14001 environmental certification for several of our New Zealand forests.

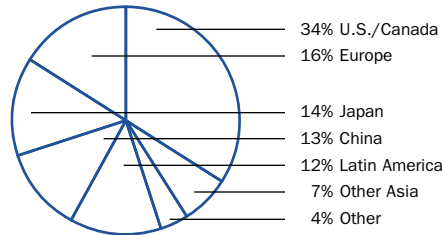
Our well-managed timberlands consistently produce solid earnings and very strong cash flow. With our annual land sales program, we expect to capture even more of the value of this growing asset for our shareholders.

Rayonier is a leading manufacturer of high performance fibers used in specialty cellulose and absorbent materials applications. Our production facilities have a combined annual capacity of 720,000 metric tons. (Jesup, GA: 570,000 metric tons; Fernandina Beach, FL: 150,000 metric tons)



Performance Fibers

Sales Volumes by Destination



Cellulose Specialties

Rayonier high performance fibers are engineered to be dissolved into customers' chemical processes including acetylation, viscose, etherification, microcrystalline cellulose and nitration. They are also used in filter paper applications and decorative laminate papers.

Share of Available World Markets

Acetate	For textile fibers, cigarette filters, impact-resistant plastics, photographic film, rigid packaging and optical clarity films.	49% of acetate pulps
Viscose	For high-tenacity rayon cord (for tires, industrial belts and hoses), textile fibers, sausage casing, sponges.	45% of pulp for rayon tire cord
Ethers and Microcrystalline Cellulose	For high value chemical intermediates used in pharmaceuticals, cosmetics, food products, textile sizing, paints, cement.	54% of high-value specialty ethers and microcrystalline cellulose pulps
Nitration	For explosives, lacquers, printing inks, rocket propellants.	19% of nitration pulps
Filter Media	For filter paper applications and decorative laminate papers.	39% of high-porosity pulps

Absorbent Materials

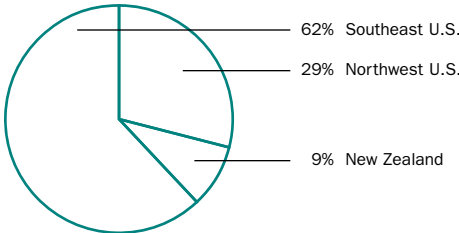
Fluff Fibers	For fluid acquisition in disposable products such as diapers, feminine care products, incontinence pads, non-woven fabrics.	10% of fluff pulps
NovaThin™ preformed cores	Patented engineered absorbent material for use in disposable sanitary products.	Emerging market

Rayonier has 2.3 million acres from which it sells standing timber. Our real estate subsidiary, Rayland, markets higher value Southeast holdings primarily for commercial and residential development. 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.



Timberland Management

Timber and Land Revenues



Forest Resources

Rayonier sells standing timber, on an auction basis, to domestic and export customers from 2.3 million acres in the U.S. and New Zealand. These regions have some of the highest growth rates of softwood in the world.

Forest management services*

Location	Holdings
Southeast U.S.	1,742,000 acres of Southern pine and hardwood
Northwest U.S.	379,000 acres of Western hemlock and Douglas fir
New Zealand	210,000 acres of primarily radiata pine

Rayland

Our Rayland real estate subsidiary specializes in identifying, planning and marketing higher and better use properties, primarily to the development community.

Location	Holdings
Southeast U.S.	Approximately 20,000 acres along the coastal corridor of Northeast Florida and Southeast Georgia

Other Businesses

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.

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.

Lumber Mills	Capacity
Baxley, GA	165,000 MBF
Swainsboro, GA	120,000 MBF
Eatonton, GA	75,000 MBF

MDF Plant	Capacity
Mataura, NZ	160,000 m ³

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.

* Rayonier has long-term agreements to provide forest management and timber marketing services to timber owners of 123,000 acres in New Zealand and Australia. We also provide marketing services for owners in the Russian Far East, Alaska and British Columbia, Canada.

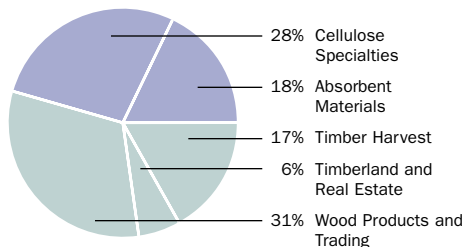
Selected Financial and Operating Data

Rayonier Inc. and Subsidiaries

Dollars in millions

	2000	1999	1998	1997	1996
Sales					
Performance Fibers					
Cellulose Specialties	\$ 348	\$ 331	\$ 355	\$ 361	\$ 348
Absorbent Materials	228	160	170	208	211
Total Performance Fibers	576	491	525	569	559
Timberland Management					
Timber Harvest	210	156	168	175	187
Timberland and Real Estate	70	21	14	9	9
Total Timberland Management	280	177	182	184	196
Wood Products and Trading					
Intersegment Eliminations	(30)	(22)	(15)	(24)	(39)
Total before dispositions	1,227	1,108	1,073	1,162	1,183
Dispositions	—	—	0	34	88
Total sales	\$ 1,227	\$ 1,108	\$ 1,073	\$ 1,196	\$ 1,271
Operating Income (loss)					
Performance Fibers	\$ 83	\$ 39	\$ 34	\$ 56	\$ 57
Timberland Management					
Timber Harvest	114	100	111	114	127
Timberland and Real Estate	38	16	10	5	5
Total Timberland Management	152	116	121	119	132
Wood Products and Trading					
Provision for dispositions	(15)	—	—	3	(134)
Corporate and other	(13)	(16)	(14)	(16)	(11)
Total operating income	\$ 190	\$ 136	\$ 124	\$ 166	\$ 34

**2000 Sales
by Line
of Business**



Dollars in millions	2000	1999	1998	1997	1996
Timberland Management					
Sales					
Northwest U.S.	\$ 82	\$ 73	\$ 81	\$ 81	\$ 92
Southeast U.S.	173	79	77 ^a	70	67
New Zealand	25	25	24	33	37
Total	\$ 280	\$ 177	\$ 182	\$ 184	\$ 196
Operating Income					
Northwest U.S.	\$ 65	\$ 52	\$ 59	\$ 58	\$ 67
Southeast U.S.	81	58	54 ^b	51	48
New Zealand	6	6	8	8	15
Total	\$ 152	\$ 116	\$ 121	\$ 117	\$ 130
EBITDA per Share					
Performance Fibers	\$ 5.75	\$ 3.78	\$ 3.51	\$ 4.20	\$ 3.99
Timberlands Management	9.05	5.25	5.19	4.91	5.10
Wood Products and Trading	.02	.42	.05	.45	.22
Corporate and other	(.63)	(.47)	(.55)	(1.42)	(1.40)
Total Rayonier	\$14.19	\$ 8.98	\$ 8.20	\$ 8.14	\$ 7.91
Performance Fibers					
Sales Volume (in thousands of metric tons) ¹					
Cellulose Specialties ²	394	364	369	410	373
Absorbent Materials	329	297	324	315	308
Production as a percent of capacity	101%	95%	97%	100%	101%
Timberland Management					
Timber Harvest Sales Volume					
Northwest U.S., in millions of board feet	239	204	212	190	193
Southeast U.S., in thousands of short green tons	4,920	2,574	2,360 ^a	2,421	2,281
New Zealand, in thousands of cubic meters	1,320	1,249	1,003	1,111	1,097
Intercompany Timber Harvest Sales Volume					
Northwest U.S., in millions of board feet	59	24	12	14	23
Southeast U.S., in thousands of short green tons	41	40	70	92	158
New Zealand, in thousands of cubic meters	634	580	385	589	840
Wood Products and Trading					
Lumber Sales Volume, in millions of board feet ³	235	255	310	325	280
Medium-Density Fiberboard Sales Volume, in thousands of cubic meters	157	129	91	16	—
Log Trading Sales Volume					
North America, in millions of board feet	220	205	173	224	284
New Zealand, in thousands of cubic meters	1,254	1,246	851	1,113	1,414
Other, in thousands of cubic meters	335	611	206	277	97

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) Excludes sales by the Port Angeles pulp mill, which ceased operations on February 28, 1997, of 7 and 18 for the years 1997-1996, respectively.

2) Excludes sales by the Port Angeles pulp mill, which ceased operations on February 28, 1997, of 35 and 94 for the years 1997-1996, respectively.

3) Includes sales by the Plummer lumber mill, which closed in July 1998 after fire damaged the facility, of 51, 77 and 79 for the years 1998-1996, respectively.

Management's Discussion and Analysis

Rayonier Inc. and Subsidiaries

Segment Information

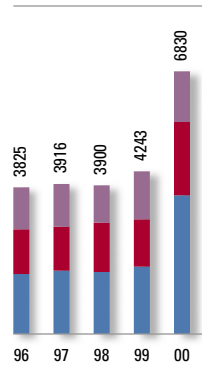
Rayonier operates in three major business segments, Performance Fibers, Timberland Management, and Wood Products and Trading. Cellulose Specialties and Absorbent Materials are product lines within the Performance Fibers segment. Timber Harvest and Timberland and Real Estate are product lines within the Timberland Management segment.

Business Conditions

Rayonier's net income in 2000 was \$78 million (\$2.82 per share), compared to \$69 million (\$2.44 per share) in 1999. Excluding the impact of special items in each year, 2000 net income was \$83 million (\$3.00 per share), and 1999 net income was \$65 million (\$2.32 per share). Two nonrecurring transactions were recorded in 2000. The sale of our interest in a New Zealand timberland joint venture that contributed a gain of \$7.6 million (16 cents per share, after tax), and an increase in a dispositions reserve of \$15 million (34 cents per share, after tax). In 1999, special gains included the sale of a marine terminal and associated assets in the Northwest U.S. for a gain of \$7.7 million and the sale of land in the Southeast U.S. that resulted in a gain of \$5 million. Those gains were offset by costs incurred related to the corporate office restructuring and relocation and the non-cash charge for a prior year contract dispute.

After a strong first half in 2000, demand for many of the company's products began to weaken due to the slowing U.S. and global economy. The cycle upturn in the Performance Fibers segment, which began in the second half of 1999, continued during most of 2000 and resulted in higher absorbent material fibers prices and overall volume. In the fourth quarter, in response to U.S. and global economic weakness, demand for absorbent material fibers diminished and prices stabilized. Demand for the Company's cellulose specialties fibers increased steadily throughout the year.

In Timberland Management, timber harvest in the Northwest U.S. increased significantly due to strong domestic lumber demand in the early part of the year. Demand for timber for export markets peaked in the first quarter. In the Southeast U.S., greater income from higher volume resulting from the 1999 major timberland acquisition, was mostly offset by higher depletion expense and lower pine prices. The segment's favorable year-over-year performance basically came from the Southeast U.S., where the sale of timberland and higher and better use (HBU) land provided strong income contributions.



Annual Harvest by Region
(thousands of cubic meters)

■ New Zealand
■ Northwest U.S.
■ Southeast U.S.

Harvesting is well balanced in productive forest areas.

Rayonier sold a large tract of timberland in the first quarter of 2000 for \$50 million as part of an ongoing program to convert timberlands to their highest and best use and as part of its continuing program to reduce debt.

In Wood Products and Trading, lumber results deteriorated due to substantially lower prices in the second half of the year. However, results at the Company's medium-density fiberboard (MDF) plant in New Zealand improved due to higher volume and prices and lower costs.

In the fourth quarter of 2000, the Company sold its 25 percent interest in a New Zealand timberland joint venture for \$14.6 million, resulting in a gain of \$7.6 million.

Rayonier's capital spending in 2000 was focused on investment in timberlands and cost reduction, quality and productivity improvements in Performance Fibers and Wood Products. These investments are expected to help moderate the cyclical effects of the Performance Fibers market cycle, improve bottom-of-the-cycle earnings and add value to existing assets. See Liquidity and Capital Resources.

The Performance Fibers segment continues to perform well despite the strong U.S. dollar and generally weak Asian markets. The Company's cellulose specialty capacity is fully committed for the first quarter of 2001. However, the slowing U.S. economy and the strong U.S. dollar have put pressure on the other business segments.

Results of Operations, 2000 vs. 1999

Sales and Operating Income

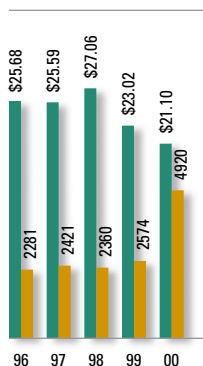
Sales of \$1.227 billion in 2000 were \$119 million above 1999 sales, reflecting higher Performance Fibers prices and volume, improved timber harvest, and higher timberland sales activity. These improvements were partially offset by lower Wood Products and Trading activity. Operating income of \$190 million was \$54 million higher than 1999, principally due to higher Performance Fibers, timber harvest, and timberland sales contributions, partly offset by lower lumber results.

Performance Fibers

Performance Fibers sales of \$576 million were \$85 million above the prior year, principally due to higher absorbent materials prices and overall fiber sales volume resulting from improved demand. Operating income of \$83 million was \$44 million above 1999, primarily as a result of the higher absorbent materials prices, stronger overall volume, and slightly lower manufacturing costs. These favorable factors were partially offset by lower cellulose specialty prices.

Timberland Management

Timberland Management sales of \$280 million and operating income of \$152 million were above the prior year by \$103 million and \$36 million, respectively.



Timber Harvest
(Southeast U.S.)

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

Volume increase reflects the major timberland purchase in 1999.

Timber Harvest – Timber harvest sales of \$210 million in 2000 were \$54 million above 1999, and operating income of \$114 million exceeded prior year results by \$14 million. Sales improved due to higher timber harvests in operating regions, principally driven by volume from the major fourth quarter 1999 Southeast U.S. timberland acquisition, along with higher volume in the Northwest U.S. and New Zealand. The favorable impact of the higher volume was partially offset by lower timber prices. Operating income improved as a result of the higher sales volume partially offset by higher depletion costs in the Southeast U.S. associated with the 1999 timberland acquisition.

Timberland and Real Estate – Timberland and real estate sales of \$70 million and operating income of \$38 million were above 1999 results by \$49 million and \$22 million, respectively. The improvement essentially results from the first quarter 2000 timberland sales. In November 2000, the Company announced that it would routinely sell 2 percent to 4 percent of its land base each year in order to capture its appreciated value on a more regular basis. The Company said that as an example, if the 2 percent of its overall holdings that were sold came from the Southeast U.S., using recent transaction prices and Rayonier's average cost basis for Southeast properties, it is estimated that operating income would increase by approximately \$15 million, or 35 cents in earnings per share, and EBITDA would increase by approximately \$40 million.

Wood Products and Trading

Sales of \$401 million were \$61 million below the prior year, and an operating loss of \$17 million was unfavorable to 1999 by \$14 million. Lumber results declined dramatically from the prior year due to lower prices and volume, as well as higher wood costs and expenses associated with the start-up of our Eatonton, GA, facility. MDF results improved compared to the prior year due to higher prices and volume and lower manufacturing costs. Although trading volume declined, operating results reflected a slight improvement.

Provision for dispositions

The provision for dispositions in 2000 increased \$8 million over 1999, primarily resulting from strengthening the closure reserves for the Port Angeles, WA pulp mill.

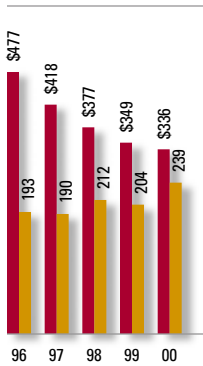
Corporate and other

Corporate and other costs of \$13 million for 2000 were \$3 million lower than 1999 principally due to lower incentive compensation and expenses associated with the Company's corporate office restructuring and relocation.

Other Income/Expense

Interest expense of \$86 million was \$44 million above the prior year principally due to financing the fourth quarter 1999 timberland acquisition and slightly higher rates.

Other income improved \$3 million when the sale of our interest in a New Zealand joint venture in 2000 is compared to the effect of last year's contract dispute charge and the gain from the 1999 sale of a non-strategic marine terminal and related assets in the Northwest U.S.



Timber Harvest (Northwest U.S.)

- Price per thousand board feet
- Volume in million board feet

Prices declined moderately 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 \$3 million compared to \$0 in 1999. In 2000 the New Zealand/U.S. dollar exchange rate declined from 0.51 on January 1, 2000, to 0.44 on December 31, 2000.

Income Taxes

The effective tax rate for 2000 was 28 percent compared to 30 percent in 1999. The effective tax rates are below U.S. statutory rates, primarily resulting from the lower rates in effect for foreign subsidiaries, research and development tax credits, and the reversal of tax provisions for items cleared as a result of the completion of several tax audits.

Results of Operations, 1999 vs. 1998

Sales and Operating Income

Sales increased 3 percent to \$1.108 billion in 1999, reflecting higher Wood Products and Trading activity, partially offset by weaker U.S. timber prices and reduced sales in the Performance Fibers segment due to lower cellulose specialties prices and volume. Operating income for the year was \$136 million, up from \$124 million in 1998, due to improvements in Wood Products primarily at the New Zealand MDF facility and a strong U.S. lumber market. Harvest results declined due to lower U.S. timber prices. Performance Fibers results improved due to lower manufacturing costs and higher absorbent material prices.

Performance Fibers

Performance Fibers sales of \$491 million were \$34 million below the prior year level, principally due to reduced customer demand and selling prices for cellulose specialties partly offset by higher absorbent materials prices. Operating income of \$39 million was \$5 million above 1998 as a result of higher absorbent materials prices and lower wood, chemical and maintenance costs. Performance Fibers 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 cellulose specialties pricing and market related shutdown costs for the Fernandina mill.

Timberland Management

Sales of \$177 million and operating income of \$116 million were each \$5 million below the prior year as follows.

Timber Harvest – Timber sales of \$156 million in 1999 were \$12 million below 1998 and operating income of \$100 million decreased \$11 million from 1998. Sales and operating income declined as a result of lower U.S. timber prices. 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 weak Asian economies 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. 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.

Timberland and Real Estate – Timberland and Real Estate sales of \$21 million in 1999 were \$7 million above 1998, and operating income of \$16 million was \$6 million above 1998. Higher land sales in the Southeast U.S., including a relatively large transaction in the fourth quarter, resulted in a gain of \$5 million.

Wood Products and Trading – Wood Products and Trading sales of \$462 million in 1999 were \$81 million above the 1998 level. Sales improved due to higher wood products trading activity and increased log trading volume in Asian and U.S. domestic markets, higher volume and sales price for MDF, and a strong Southeast U.S. lumber market, 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 it subsequently was sold in September 1999. An operating loss of \$3 million in 1999 was favorable \$14 million to 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 partly offset by the costs associated with the closure of a wood products distribution business.

Corporate and other

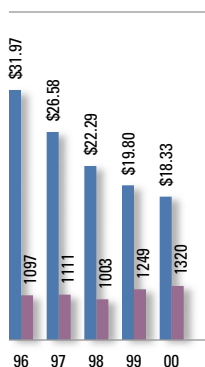
Costs for 1999 were higher than 1998, principally due to \$4 million of expense associated with the Company's corporate office restructuring and relocation to Jacksonville, FL.

Other Income/Expense

Interest expense for 1999 increased \$7 million to \$42 million, reflecting higher debt levels associated with the 1999 major timberland acquisition, net of lower other debt 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.

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 \$0 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.



Timber Harvest
(New Zealand)

■ Price per cubic meter
■ Volume in thousand cubic meters

Pricing pressure continues while volume growth trend is sustained.

Acquisition of Timberland

On October 25, 1999, the Company completed a major timberland purchase. The final acquisition cost of the asset was \$716.4 million for approximately 968,000 owned and long-term leased acres in Georgia, Florida and Alabama.

Income Taxes

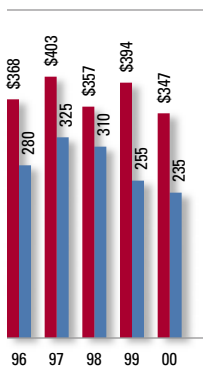
The effective tax rate for 1999 was 30 percent, compared to 29 percent in 1998. The effective tax rates are below U.S. statutory rates, primarily resulting from the lower rates in effect for foreign subsidiaries, and research and development tax credits.

Liquidity and Capital Resources

Cash flow from operating activities in 2000 of \$279 million increased \$66 million from 1999 principally as a result of higher cash income partly offset by higher working capital requirements. This cash flow helped to finance capital expenditures of \$90 million, pay dividends of \$39 million, repurchase Common Shares of \$18 million and reduce debt by \$163 million.

Cash flow from operating activities in 1999 increased \$59 million from the 1998 level to \$213 million. 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 helped reduce debt by \$70 million, excluding the major timberland acquisition.

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. In October 1998, the Board authorized the repurchase of an additional one million shares through December 31, 2000. In October 2000, the Board authorized the repurchase of an additional one million shares. These share repurchases were authorized in addition to the 1.5 percent of outstanding shares normally repurchased each year. The Company repurchased 433,000 shares in 2000 at an average cost of \$40.70 per share for \$18 million, compared to 551,867 shares in 1999, at an average cost of \$43.11 per share for \$24 million, and 628,479 shares in 1998 at an average cost of \$42.24 per share for \$27 million.



Wood Products
(Lumber)

■ Price per thousand board feet
■ Volume in million board feet

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

In 2000, EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes, depreciation, depletion and amortization and non-cash cost of land sales) was \$393 million (\$14.19 per share), an increase of \$140 million (\$5.21 per share) from 1999.

The increase is primarily due to higher operating income, increased depletion of timberlands and cash flow associated with the non-cash cost of timberlands sold. In 1999, EBITDA was \$253 million (\$8.98 per share), compared to \$235 million (\$8.20 per share) in 1998. Free cash flow (defined as EBITDA plus significant non-recurring items, less income taxes, interest expense, changes in working capital, long-term assets and liabilities, custodial capital spending and prior-year dividend levels) increased \$84

million to \$205 million in 2000 primarily as a result of higher cash income.

Debt decreased \$163 million in 2000 to \$973 million primarily resulting from higher free cash flow. The year-end debt-to-capital ratio of 59 percent is 4 percentage points lower than 1999. The percentage of debt with fixed interest rates was 68 percent as of December 31, 2000, and 62 percent as of December 31, 1999.

The most restrictive long-term debt covenant in effect for Rayonier at December 31, 2000, provided that the ratio of total debt to EBITDA not exceed 5.5 to 1 at the end 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, 2000, the ratio was 2.5 to 1. The most restrictive long-term debt covenants in effect for RTOC at December 31, 2000, provided that the ratio of consolidated cash flow available for fixed charges to consolidated fixed charges not be less than 1.6 to 1. Additionally, the ratio of consolidated total debt to consolidated cash flow available for fixed charges may not exceed 4.5 to 1. As of December

31, 2000, the ratios were 2.5 to 1 and 3.1 to 1, respectively. In addition, \$461 million of retained earnings was unrestricted as to the payment of dividends.

Capital expenditures of \$90 million in 2000 included: \$70 million of custodial capital spending; \$7 million for the purchase and upgrade of the Eatonton, GA, sawmill; \$8 million to purchase fee title to 76,000 acres underlying some of our Crown Forest Licenses in New Zealand; and \$1 million as part of a \$5 million project to install a dewatering press in Jesup. Rayonier expects to invest \$170 to \$210 million in capital projects during the two-year period 2001-2002. Capital projects include profit improvement, custodial capital, timberlands 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 \$20 million of outstanding commercial paper. As of December 31, 2000, Rayonier had \$280 million available under its revolving credit facilities. In connection with the financing of the 1999 major timberland acquisition, Rayonier Timberlands Operating Company (RTOC), in which the Company's U.S. Timberlands are owned, 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, 2000, RTOC had \$45 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, dividends, share repurchases, working capital, and other liquidity needs for the foreseeable future.

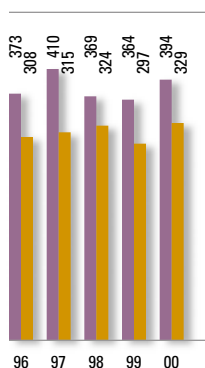
Environmental Regulation

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 2000, 1999, and 1998, Rayonier spent approximately \$4 million, \$3 million, and \$3 million, respectively, for capital projects related to environmental compliance for ongoing operations. During the two-year period 2001-2002, Rayonier expects to spend approximately \$11 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 Performance Fibers products and operations, the Agency postponed finalizing water discharge rules and certain air emissions rules governing the mills. The Company continues to work with the EPA to establish such rules for its 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 \$70 million at the mills.

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

timberlands is subject to some level of harvest restrictions. Over the past several years, the harvest of timber from the Company's timberlands 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 salmon. These rules will further reduce the proportion of Rayonier's Northwest timberlands available for commercial timber management and the total



Performance Fibers Volume

(thousands of metric tons)

- Cellulose Specialties
- Absorbent Materials

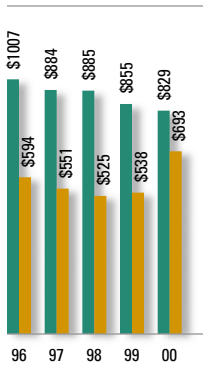
Both product lines showed increased sales volumes resulting from improved overall demand.

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.

Rayonier currently estimates that expenditures during 2001-2002 for environmental remediation and monitoring costs for all dispositions and discontinued operations will total approximately \$29 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, 2000, these reserves totaled approximately \$177 million. The actual future environmental costs are 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 position 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 economic impact of these market risks. 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.



Performance Fibers Price

(per metric ton)

■ Cellulose Specialties
■ Absorbent Materials

Absorbent Material prices strengthened in 2000.

Most of the Company's revenues and expenses are U.S.-dollar denominated. However, there is 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. The Company also periodically enters into commodity forward contracts to fix certain energy costs. At December 31, 2000, the Company held foreign currency contracts maturing through January 2002 totaling \$17.7 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 \$0.4 million. Market risk resulting from a hypothetical 2-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, 2000, 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 loss 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.

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, 2000, was \$754 million compared to \$659 million in carrying value. A one-percentage-point decrease in prevailing interest rates at December 31, 2000, would result in an increase in the fair value of the Company's fixed-rate debt of approximately \$48 million.

Safe Harbor

Comments about market trends, anticipated earnings and activities in 2001 and beyond, including disclosures about the Company's environmental and capital projects 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: global market conditions impacting supply and demand for wood products, export and domestic logs and high performance cellulose fibers; governmental policies and regulations affecting the environment, import and export controls and taxes; availability and pricing of competitive products; production costs for wood products and Performance Fibers, particularly for raw materials such as wood and chemicals; weather conditions in the Company's operating areas; 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,		
	2000	1999	1998
Sales	\$1,226,878	\$1,108,035	\$1,073,138
Costs and Expenses			
Cost of sales	991,817	939,260	917,055
Selling and general expenses	31,213	39,644	35,467
Provision for dispositions	15,044	—	—
Other operating (income), net	(707)	(6,599)	(3,507)
	1,037,367	972,305	949,015
Operating income	189,511	135,730	124,123
Interest expense	(85,753)	(42,193)	(34,712)
Interest and miscellaneous income (expense), net	(2,687)	(3,163)	743
Gains from sale of assets	7,574	7,746	—
Income before income taxes	108,645	98,120	90,154
Income tax expense	(30,458)	(29,467)	(26,519)
Net income	\$ 78,187	\$ 68,653	\$ 63,635
Net Income per Common Share			
Basic EPS	\$ 2.87	\$ 2.48	\$ 2.26
Diluted EPS	2.82	2.44	2.22

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,	
	2000	1999
Assets		
Current Assets		
Cash and short-term investments	\$ 9,824	\$ 12,265
Accounts receivable, less allowance for doubtful accounts of \$3,969 and \$4,859	117,114	103,535
Inventories	97,106	105,079
Timber purchase agreements	33,775	30,477
Other current assets	12,779	11,107
Deferred income taxes	—	9,143
Total current assets	270,598	271,606
Other assets	63,129	77,094
Timber purchase agreements	6,335	7,816
Timber, timberlands and logging roads, net of depletion and amortization	1,192,388	1,247,547
Property, Plant and Equipment		
Land, buildings, machinery and equipment	1,360,296	1,333,789
Less – accumulated depreciation	730,472	657,625
	629,824	676,164
	\$ 2,162,274	\$2,280,227
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 87,401	\$ 74,035
Bank loans and current maturities	2,565	3,248
Accrued taxes	10,314	15,148
Accrued payroll and benefits	27,756	22,405
Accrued interest	11,745	11,160
Accrued customer incentives	18,163	16,797
Other current liabilities	22,389	32,098
Current reserves for dispositions and discontinued operations	15,434	18,980
Total current liabilities	195,767	193,871
Deferred income taxes	130,333	123,458
Long-term debt	970,415	1,132,930
Non-current reserves for dispositions and discontinued operations	161,465	149,551
Other non-current liabilities	24,193	24,326
Shareholders' Equity		
Common Shares, 60,000,000 shares authorized, 27,104,462 and 27,407,094 shares issued and outstanding	48,717	63,709
Retained earnings	631,384	592,382
	680,101	656,091
	\$ 2,162,274	\$2,280,227

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,		
	2000	1999	1998
Operating Activities			
Net income	\$ 78,187	\$ 68,653	\$ 63,635
Non-cash items included in income			
Depreciation, depletion and amortization	176,913	105,425	101,083
Deferred income taxes	12,674	2,768	11,659
Write-off of property, plant and equipment	—	—	5,730
Gain of sale of joint venture	(7,574)	—	—
Non-cash cost of land sales	14,316	7,359	8,607
Increase (decrease) in reserves for dispositions	15,044	—	(1,050)
Decrease in other non-current liabilities	(133)	(1,894)	(2,399)
Change in accounts receivable, inventories and accounts payable	5,055	14,926	1,895
(Increase) decrease in current timber purchase agreements	(3,298)	5,299	(4,018)
(Increase) decrease in other current assets	(1,672)	2,086	763
(Decrease) increase in accrued liabilities	(4,951)	16,959	(21,179)
Expenditures for dispositions and discontinued operations, net of tax benefits of \$3,344, \$4,701 and \$6,033	(5,622)	(8,133)	(10,414)
Cash from operating activities	278,939	213,448	154,312
Investing Activities			
Capital expenditures, net of sales and retirements of \$1,124, \$1,624 and \$4,992	(88,387)	(92,969)	(89,720)
Acquisition of Smurfit timberlands	—	(231,436)	—
Acquisition of Rayonier Timberlands, L.P., Class A Units	—	—	(48,821)
Proceeds from the sale of joint venture, net of cash costs	14,550	—	—
Change in timber purchase agreements and other assets	9,832	9,344	(8,997)
Cash used for investing activities	(64,005)	(315,061)	(147,538)
Financing Activities			
Issuance of debt	266,172	352,971	282,905
Repayments of debt	(429,370)	(191,737)	(218,480)
Dividends paid	(39,185)	(35,669)	(34,744)
Repurchase of Common Shares	(17,624)	(23,791)	(26,548)
Issuance of Common Shares	2,632	5,469	3,026
Buyout of minority interest	—	—	(16,959)
Cash (used for) provided by financing activities	(217,375)	107,243	(10,800)
Cash and Short-Term Investments			
(Decrease) increase in cash and short-term investments	(2,441)	5,630	(4,026)
Balance, beginning of year	12,265	6,635	10,661
Balance, end of year	\$ 9,824	\$ 12,265	\$ 6,635
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	\$ 85,167	\$ 37,529	\$ 34,868
Income taxes	\$ 18,802	\$ 17,152	\$ 11,673
Noncash Investing and Financing Activities			
Acquisition of Smurfit timberlands	\$ —	\$ 485,000	—
Issuance of installment notes	\$ —	\$ 485,000	—

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

Notes to Consolidated Financial Statements

Rayonier Inc. and Subsidiaries

Dollar amounts in thousands unless otherwise stated

1. Nature of Business Operations

Rayonier Inc. (Rayonier or the Company) operates in three major business segments, Performance Fibers, Timberland Management, and Wood Products and Trading. The Performance Fibers segment includes two reportable business units under Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures About Segments of an Enterprise and Related Information," Cellulose Specialties and Absorbent Fibers. The Timberland Management segment includes two reportable business units, Timber Harvest, and Timberland and Real Estate.

Performance Fibers

Rayonier is a leading manufacturer of high performance cellulose fibers. The Company owns and operates fiber production facilities at Jesup, GA, and Fernandina Beach, FL, with a combined annual capacity of approximately 720,000 metric tons. These fiber products are sold throughout the world to industrial companies that produce a wide variety of products. Over half of Rayonier's sales are to export customers, primarily in Asia, Europe and Latin America. The Performance Fibers segment includes two reportable business units, Cellulose Specialties and Absorbent Materials.

Cellulose Specialties – Rayonier is one of the world's leading producers of specialty cellulose products, most of which are used in dissolving chemical applications that require a highly purified form of cellulose fiber. Rayonier concentrates on producing the most highly valued, technologically demanding forms of cellulose specialty products, such as cellulose acetate and high-purity cellulose ethers, and it is a leading supplier of these products.

Absorbent Materials – Rayonier is a major supplier of absorbent fibers for hygiene products. These fibers are typically referred to as fluff fibers and are used as an absorbent medium in products such as disposable baby diapers, personal sanitary napkins, incontinence pads, convalescent bed pads, industrial towels and wipes and non-woven fabrics.

Timberland Management

The Timberland Management segment includes two reportable business units: Timber Harvest, and Timberland and Real Estate.

Timber Harvest – Rayonier owns, leases or controls approximately 2.3 million acres of timberlands in the U.S. and New Zealand. The Company manages timberlands and sells standing timber to third parties.

Timberland and Real Estate – Rayonier invests in timberlands seeking to maximize its returns from a full cycle of ownership. The end cycle includes selling portions of its land base to capture the appreciated value of the underlying asset. This program includes selling general timberland for others to manage and harvest, and selling higher and better use (HBU) real estate properties more valuable for commercial and residential development purposes.

Wood Products and Trading

Rayonier is a leading exporter, trader and manufacturer of softwood logs, lumber and wood panel products. The Company manufactures and sells dimension and specialty lumber and medium-density-fiberboard (MDF) products. Rayonier operates three lumber manufacturing facilities in the U.S. and an MDF facility in New Zealand. The Company purchases and harvests timber, sells logs and purchases wood products for resale.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 reporting 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 Performance Fibers 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 taken at least annually. Potential losses from obsolete, excess or slow-moving inventories are expensed currently.

Higher and better use real estate properties that are expected to be sold within one year are included in inventories. HBU real estate properties that are expected to be sold after one year are included in "Other Assets."

Timber Purchase Agreements and Timber-Cutting Contracts

Rayonier purchases timber for use in its Performance Fibers and Wood Products and Trading businesses. The purchases are classified as current assets 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

Unamortized debt issuance costs of approximately \$7.4 million and \$9.6 million at December 31, 2000 and 1999, respectively, are included in "Other Assets." Approximately \$5.9 million of the year 2000 balance relates to the 1999 major timberland acquisition. See Note 6. Such costs are amortized to interest expense over the respective term of the debt instruments. Expenses were \$2,184, \$529 and \$419 in 2000, 1999 and 1998, 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 \$11,428 and \$15,293 as of December 31, 2000 and 1999, respectively. Amortization expense was \$5,323, \$4,248 and \$3,028 in 2000, 1999 and 1998, respectively.

Timber and Timberlands

The acquisition cost of land and timber, plus 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 or land is sold based on the relationship of harvested timber to the estimated volume of currently merchantable timber. Timber and timberlands 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, including applicable freight, taxes, interest, construction and installation costs. Interest capitalized in connection with major construction projects was \$0, \$314, and \$262 during 2000, 1999, and 1998, 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.

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

Routine repair and maintenance costs are expensed as incurred. Costs associated with planned major maintenance activities, generally requiring a plant shutdown, are accrued pro rata in the year of the shutdown.

Revenue Recognition

Revenue from domestic sales of Performance Fibers products is recorded when goods are shipped and title passes. Foreign sales are recorded when the customer or agent receives the goods and title passes. Sale of timber is recorded when title passes to the buyer. Although some timber sales are sold "lump sum" with title passing immediately, most are "pay as cut" with title passing when the purchaser harvests the timber. Revenues on "pay as cut" are based on actual harvest volumes multiplied by contractually agreed-upon prices. Timberland and real estate sales are recorded when title passes and payment is received.

Depreciation

Performance Fibers 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 for research and development programs expected to contribute to the profitability of future operations are expensed as incurred. Research and development expenditures were \$10,252, \$10,179 and \$10,720 in 2000, 1999 and 1998, 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

Deferred income taxes are provided using the liability method under the provisions of SFAS No. 109 "Accounting for 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 \$60 million of undistributed foreign earnings as the Company intends to permanently reinvest such earnings in expanding foreign operations.

Reclassifications

Certain 1999 and 1998 amounts have been reclassified to agree with the presentation adopted in the current year. Effective December 31, 2000, the Company changed its method of reporting

freight revenue and costs in compliance with Emerging Issues Task Force (EITF) Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." Freight costs will now be charged to cost of sales rather than netted against sales. The Company's financial statements have been reclassified to reflect the increase in sales and cost of sales of \$75,974, \$72,164 and \$64,572 in 2000, 1999 and 1998, respectively. The financial statements have also been reclassified to reflect the Company's focus on key segments of its operations. Additionally, the sale of timberland in the first quarter of 2000 has been reclassified from gain on sale of assets (\$23,147) to Timberland and Real Estate sales (\$49,600) and cost of sales (\$26,453) to conform with the Company's segment reporting. These changes had no effect on net income or earnings per share.

3. Segment and Geographical Information

Rayonier operates in three major business segments under SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information": Performance Fibers, Timberland Management and Wood Products and Trading. Prior years' segment information has been reclassified to agree with the segment information presented in the current year.

The accounting policies of the operating segments are the same as those described in the Summary of Significant Accounting Policies. Sales between operating segments 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 segments.

Segment information for each of the three years in the period ended December 31, 2000, follows (millions):

	Sales			Operating Income		
	2000	1999	1998	2000	1999	1998
Performance Fibers	\$ 576	\$ 491	\$ 525	\$ 83	\$ 40	\$ 34
Timberland Management	280	177	182	152	116	121
Wood Products and Trading	401	462	381	(17)	(3)	(17)
Corporate, other, and eliminations ^(A)	(30)	(22)	(15)	(28)	(17)	(14)
Total	\$1,227	\$1,108	\$1,073	\$190	\$136	\$124

(A) Corporate and other represents unallocated corporate expenses and intersegment eliminations.

	Gross Plant Additions			Depreciation, Depletion and Amortization			Identifiable Assets		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Performance Fibers	\$ 32	\$ 51	\$ 59	\$ 74	\$ 65	\$ 65	\$ 643	\$ 670	\$ 690
Timberland Management	47	29	28	89	29	26	1,243	1,409	691
Wood Products and Trading	9	14	7	13	10	10	234	163	164
Corporate and other	2	1	1	1	1	—	32	23	33
Dispositions	—	—	—	—	—	—	10	15	23
Total	\$ 90	\$ 95	\$ 95	\$177	\$105	\$101	\$2,162	\$2,280	\$1,601

Custodial capital spending was \$70 million, \$69 million, and \$58 million in 2000, 1999, and 1998, respectively. Custodial capital spending is defined as capital expenditures to maintain current

earning levels over the cycle to keep facilities and equipment in safe and reliable condition, and to comply with regulatory requirements.

Geographical Operating Information

Information by geographical operating area for each of the three years in the period ended December 31, 2000 follows (millions):

Operating Location	Sales			Operating Income			Identifiable Assets		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
United States	\$1,063	\$ 946	\$ 969	\$189	\$144	\$141	\$1,852	\$1,940	\$1,253
New Zealand	115	106	79	(1)	(7)	(14)	300	326	336
All other	49	56	25	2	(1)	(3)	10	14	12
Total	\$1,227	\$1,108	\$1,073	\$190	\$136	\$124	\$2,162	\$2,280	\$1,601

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

	Sales by Destination					
	2000	%	1999	%	1998	%
United States	\$ 662	54	\$ 590	53	\$ 600	56
Europe	107	9	101	9	133	12
Japan	135	11	135	12	117	11
China	86	7	56	5	41	4
Other Asia	124	10	125	12	87	8
Latin America	66	5	66	6	59	6
Canada	34	3	21	2	22	2
All other	13	1	14	1	14	1
Total	\$1,227	100	\$1,108	100	\$1,073	100

4. Financial Instruments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. The standard also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption by Rayonier of the standard in the first quarter of 2001 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, 2000, 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 9 percent of the Company's sales in 2000. A significant portion of the revenue from Rayonier's New Zealand operations is in U.S. dollars or are 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.

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

	2000	1999	1998
Operating income (loss) on a 1998 exchange rate basis	\$ 7	\$(3)	\$(14)
Effect of exchange rate changes	(8)	(4)	—
Operating loss as reported	(1)	(7)	(14)
Loss from foreign currency forward contracts	(3)	—	(1)
Contribution from New Zealand operations	\$ (4)	\$(7)	\$(15)

Rayonier's New Zealand 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. Rayonier from time to time does enter into hedged firm contracts. In 2000, the maximum foreign currency forward contracts outstanding at any point in time totaled \$27.5 million (All New Zealand dollar contracts marked-to-market). At December 31, 2000, the Company held foreign currency contracts maturing through January 2002, totaling \$17.7 million. This includes \$13.2 million for New Zealand dollar contracts marked-to-market and \$4.5 million to hedge firm contracts related to equipment purchases payable in Danish Kroner.

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, 2000.

Fair Value of Financial Instruments

At December 31, 2000 and 1999, the estimated fair values of Rayonier's financial instruments were as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Asset (Liability)				
Cash and short-term investments	\$ 9,824	\$ 9,824	\$ 12,265	\$ 12,265
Debt	(972,980)	(1,067,485)	(1,136,178)	(1,127,039)
Foreign currency forward contracts	—	(392)	—	(6)
Interest rate swap agreements	—	(59)	—	17

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)
Interest rate swap agreements	—	17

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

In December 2000, Rayonier sold its 25 percent interest in a New Zealand timberland joint venture for \$14.6 million, resulting in a gain of \$7.6 million. In October 1999, Rayonier sold a marine terminal and associated properties in Hoquiam, WA, to the Port of Grays Harbor for \$9.5 million, resulting in a gain of \$7.7 million.

6. Major Timberland Acquisition

On October 25, 1999, Rayonier, through its subsidiary, Rayonier Timberlands Operating Company ("RTOC"), acquired approximately 968,000 owned and leased acres of timberland in Georgia, Florida and Alabama from Jefferson Smurfit Corporation (U.S.) ("JSC") in a business combination accounted for by the purchase method. Under a Timber Cutting Agreement, the Company agreed to sell JSC 1.4 million tons of timber at prevailing market prices for 2000 and 2001. In late 2000, the Company and JSC amended the Agreement whereby the volume sold was limited to the timber designated prior to September 5, 2000. The acquisition cost of \$716 million,

allocated to timberlands and land held for resale, was financed by \$485 million in notes issued to JSC and \$231 million in cash borrowed under a bank credit facility. RTOC manages the timberlands and sells 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 timberlands from the date of acquisition, October 25, 1999, through December 31, 1999. The pro-forma results of operations of Rayonier for the years ended December 31, 1999 and 1998 are as follows, assuming the acquisition occurred on January 1, 1998 (sales have been reclassified to reflect the change in accounting for freight as described in Note 2):

	<i>(Unaudited)</i>	
	1999	1998
Sales	\$1,145,371	\$1,128,858
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 timberlands and sells timber directly through RTOC. Until January 1998, Rayonier owned 74.7 percent of the Class A Limited Partnership Units of RTOC's parent, Rayonier Timberlands, L.P. (RTLPL), 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 RTLPL in accordance with the terms of the RTLPL 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:

	2000	1999	1998
Current			
U.S. federal	\$ 14,516	\$ 20,200	\$ 5,534
State and local	636	1,004	535
Foreign	1,450	1,372	1,687
	16,602	22,576	7,756
Deferred			
U.S. federal	13,987	10,582	28,815
State and local	1,272	902	682
Foreign	(1,403)	(4,593)	(10,734)
	13,856	6,891	18,763
	\$ 30,458	\$ 29,467	\$ 26,519

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, 2000 and 1999 were related to the following principal timing differences:

	2000	1999
Accelerated depreciation and depletion	\$(154,990)	\$(154,649)
Reserves for dispositions and discontinued operations	35,837	32,243
All other, net	(11,180)	8,091
	\$(130,333)	\$(114,315)

Management believes that it will obtain the full benefit of the deferred tax assets based on its evaluation of the Company's anticipated profitability over the period of years that the temporary differences are expected to become tax deductions.

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

	2000	1999	1998
Income tax provision at U.S. statutory rate	\$ 38,026	\$ 34,342	\$ 31,554
State and local taxes, net of federal tax benefit	1,240	1,239	791
Foreign operations	1,889	(2,563)	(2,541)
Foreign sales corporations	(4,464)	(3,100)	(1,825)
Reduction in tax reserves resulting from completion of tax audits	(4,979)	—	—
Research and development tax credits and other, net	(1,254)	(451)	(1,460)
Provision for income taxes – reported	\$ 30,458	\$ 29,467	\$ 26,519
Effective tax rate	28%	30%	29%

9. Net Income Per Common Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by using the weighted average number of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options. In 2000, 931,205 stock options that were exercisable were excluded from the computation of diluted earnings per share due to their antidilutive effect.

The following table provides details of the calculation of basic and diluted EPS for 2000, 1999 and 1998:

	2000	1999	1998
Net income	\$ 78,187	\$ 68,653	\$ 63,635
Shares used for determining basic EPS	27,236,377	27,681,845	28,118,402
Dilutive effect of:			
Stock options	153,358	253,580	266,441
Contingent shares	313,126	240,000	223,708
Shares used for determining diluted EPS	27,702,861	28,175,425	28,608,551
Basic EPS	\$ 2.87	\$ 2.48	\$ 2.26
Diluted EPS	\$ 2.82	\$ 2.44	\$ 2.22

11. Debt

Rayonier's debt included the following at December 31, 2000 and 1999:

	2000	1999
Short-term bank loans at weighted average rate of 8.01%	\$ 39,500	\$ 92,828
Commercial paper at discount rates of 7.75%	20,000	75,000
Medium-term notes due 2001 at an interest rate of 7.35%	16,000	36,000
Medium-term notes due 2004 at fixed interest rates of 6.0% to 6.15%	55,000	55,000
7.5% notes due 2002	77,550	110,000
Pollution control and industrial revenue bonds due 2001-2015 at variable interest rates of 4.5% to 6.5%	79,930	82,350
RTOC installment notes due 2007-2014 at fixed interest rates of 8.29% to 8.64%	485,000	485,000
RTOC term loan due 2004 at a weighted average interest rate of 8.26%	200,000	200,000
Total debt	972,980	1,136,178
Less:		
Short-term bank loans	—	828
Current maturities	2,565	2,420
Long-term debt	\$ 970,415	\$ 1,132,930

Rayonier has revolving credit agreements with a group of banks that provide the Company with unsecured credit facilities totaling \$300 million. The agreements expire in 2002. The revolving credit facilities are used for direct borrowings and as credit support for a commercial paper program. As of December 31, 2000, the Company had \$20 million of outstanding commercial paper and \$280 million of available borrowings under its revolving credit facilities. In connection with the financing of the Smurfit timberland acquisition, RTOC entered into an agreement with a group of banks that provided RTOC with revolving credit facilities totaling \$75 million. The agreement expires in 2004. As of December 31, 2000, RTOC had \$45 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.

10. Inventories

Rayonier's inventories included the following at December 31, 2000 and 1999:

	2000	1999
Finished goods (Including HBU land)	\$60,627	\$57,040
Work in process	9,076	12,059
Raw materials	11,044	17,947
Manufacturing and maintenance supplies	16,359	18,033
	\$97,106	\$105,079

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

2001	\$ 2,565
2002	130,760
2003	2,760
2004	282,920
2005	3,095
2006-2015	550,880
	\$ 972,980

Medium-term notes, commercial paper and short-term bank loans totaling \$81 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, 2000, provided that the ratio of total debt to EBITDA not exceed 5.5 to 1 at the end 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, 2000, the ratio was 2.5 to 1. The most restrictive long-term debt covenants in effect for RTOC at December 31, 2000, 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, 2000, the ratios were 2.5 to 1 and 3.1 to 1, respectively. In addition, \$461 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 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.

As of December 31, 2000 and 1999, Rayonier had \$6.9 million 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.

An analysis of activity in the reserves for dispositions and discontinued operations for each of the three years in the period ended December 31, 2000, follows:

	2000	1999	1998
Balance, January 1	\$168,531	\$181,365	\$198,862
Benefit reserves related to dispositions and discontinued operations reclassified from other liabilities	2,290	—	—
Expenditures charged to reserves	(8,966)	(12,834)	(16,447)
Additions (reductions) to reserves	15,044	—	(1,050)
Balance, December 31	\$176,899	\$168,531	\$181,365

In the fourth quarter of 2000, the Company increased its closure reserve by approximately \$16 million for the Port Angeles, WA, pulp mill, to cover future site maintenance costs and environmental remediation obligations. Other reserves were reduced in 2000 by approximately \$1 million based on current evaluations. Charges to the reserve in 1999 and 1998 relate primarily to dismantling and demolition of the Port Angeles mill that was completed in 1999. Environmental remediation at the mill site commenced in 2000 with completion expected by 2005. Reductions in reserves of \$1 million in 1998 primarily related to completion of projects associated with the closure of the Grays Harbor, WA, facility.

Rayonier currently estimates that expenditures during 2001-2002 for environmental remediation and monitoring costs for all dispositions and discontinued operations will total approximately \$29 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. 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.

13. Shareholders' Equity

An analysis of shareholders' equity for each of the three years in the period ended December 31, 2000, follows:

	Common Shares		Retained	Total
	Shares	Amount	Earnings	Shareholders' Equity
Balance, January 1, 1998	28,283,634	\$105,553	\$530,507	\$636,060
Net income	—	—	63,635	63,635
Dividends paid (\$1.24 per share)	—	—	(34,744)	(34,744)
Incentive stock plans	112,154	3,026	—	3,026
Repurchase of Common Shares	(628,479)	(26,548)	—	(26,548)
Balance, December 31, 1998	27,767,309	82,031	559,398	641,429
Net income	—	—	68,653	68,653
Dividends paid (\$1.29 per share)	—	—	(35,669)	(35,669)
Incentive stock plans	191,652	5,469	—	5,469
Repurchase of Common Shares	(551,867)	(23,791)	—	(23,791)
Balance, December 31, 1999	27,407,094	63,709	592,382	656,091
Net income	—	—	78,187	78,187
Dividends paid (\$1.44 per share)	—	—	(39,185)	(39,185)
Incentive stock plans	130,368	2,632	—	2,632
Repurchase of Common Shares	(433,000)	(17,624)	—	(17,624)
Balance, December 31, 2000	27,104,462	\$ 48,717	\$631,384	\$680,101

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. 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, 5,000 restricted shares were granted with grant-date fair values per share of \$45.56. No restricted shares were granted in 2000 or 1998.

In 2000 and 1999, 120,000 and 55,500 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 2000 and 1999 performance shares were \$46.75 and \$45.56. During 2000, 62,000 shares related to the 1997 award were issued and 98,000 shares reserved for the 1998 award were canceled and returned to unrestricted status. The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its stock plans. The compensation cost recognized was \$433, \$1,252 and \$2,837 in 2000, 1999 and 1998, respectively.

The Company adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock Based Compensation." Under SFAS 123, net income and earnings per share would have been reduced by \$3,259, or 12 cents per share; \$2,343, or 8 cents per share; and \$1,844, or 6 cents per share for 2000, 1999, and 1998, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants in 2000, 1999 and 1998, respectively: dividend yield of 3.6 percent, 3.4 percent and 3.1 percent; expected volatility of 44.0 percent, 25.7 percent and 24.1 percent; risk-free interest rates of 6.5 percent, 4.7 percent and 5.8 percent; and an expected life of 7.5 years for all years. The weighted average fair value of options granted during the year was \$18.04, \$10.91 and \$11.41 for 2000, 1999 and 1998, respectively.

A summary of the status of the Company's stock option plans as of December 31, 2000, 1999, and 1998, and changes during the years then ended is presented below:

	2000		1999		1998	
	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	1,911,642	\$ 36.01	1,843,496	\$ 34.20	1,551,611	\$ 32.05
Granted - 1994 Incentive Stock Plan	373,250	\$ 46.24	255,500	\$ 45.43	371,500	\$ 42.64
Exercised	(64,318)	\$ 31.81	(160,349)	\$ 29.14	(66,618)	\$ 30.12
Canceled	(28,164)	\$ 43.47	(27,005)	\$ 42.34	(12,997)	\$ 39.87
Outstanding at end of year	2,192,410	\$ 37.78	1,911,642	\$ 36.01	1,843,496	\$ 34.20
Options exercisable at year-end	1,335,181	\$ 33.66	1,317,190	\$ 32.85	1,130,690	\$ 30.67

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Outstanding			Exercisable	
	12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	12/31/00	Weighted Average Exercise Price
\$17.38	36,095	1.0 years	\$ 17.38	36,095	\$ 17.38
\$28.88 - \$33.50	898,396	3.9 years	\$ 31.09	898,396	\$ 31.09
\$36.25 - \$50.75	1,257,919	7.5 years	\$ 43.04	400,690	\$ 40.87

15. Employee Benefit Plans

Rayonier adopted SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits," in 1998. 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. The pension plans are non-contributory. 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:

	2000	Pension		2000	Postretirement	
		1999	1998		1999	1998
Components of Net Periodic Benefit Cost						
Service cost	\$ 4,772	\$ 5,312	\$ 5,255	\$ 394	\$ 438	\$ 400
Interest cost	8,980	8,147	7,803	1,449	1,341	1,328
Actual return on plan assets	(3,261)	(7,211)	(17,807)	—	—	—
Amortization of prior service cost and deferrals	(7,646)	(2,631)	8,862	(434)	(434)	(434)
Amortization of losses	89	142	384	461	618	634
Net periodic benefit cost of Rayonier plans	2,934	3,759	4,497	1,870	1,963	1,928
Defined contribution plans	2,318	2,222	2,056	—	—	—
Multi-employer plans	—	—	—	565	525	550
Total pension/postretirement benefit expense	\$ 5,252	\$ 5,981	\$ 6,553	\$ 2,435	\$ 2,488	\$ 2,478

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, 2000 and 1999, and the principal weighted-average assumptions inherent in their determination:

	<i>Pension</i>		<i>Postretirement</i>	
	2000	1999	2000	1999
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 115,661	\$ 123,770	\$ 19,370	\$ 20,546
Service cost	4,772	5,312	394	438
Interest cost	8,980	8,147	1,449	1,341
Actuarial (gain) loss	3,342	(14,208)	443	(1,581)
Benefits paid	(7,488)	(7,360)	(1,701)	(1,374)
Benefit obligation at end of year	125,267	115,661	19,955	19,370
Change in Plan Assets				
Fair value of plan assets at beginning of year	129,746	130,170	—	—
Actual return on plan assets	(3,261)	7,211	—	—
Employer contribution	1,660	162	1,701	1,374
Other expense	(706)	(437)	—	—
Benefits paid	(7,488)	(7,360)	(1,701)	(1,374)
Fair value of plan assets at end of year	119,951	129,746	—	—
Reconciliation of Funded Status at End of Year				
Funded status	(5,316)	14,085	(19,955)	(19,370)
Unrecognized prior service cost	8,405	9,493	(2,649)	(3,083)
Unrecognized actuarial net (gain) loss	(7,215)	(25,770)	7,374	7,392
Unrecognized net transition obligation	(1,522)	(2,183)	—	—
Accrued benefit cost	\$ (5,648)	\$ (4,375)	\$ (15,230)	\$ (15,061)
Weighted Average Assumptions as of December 31				
Discount rate	7.75%	7.75%	7.75%	7.75%
Return on plan assets	9.75%	9.75%	—	—
Rate of compensation increase	5.00%	5.00%	—	—
Ultimate health care trend rate	—	—	5.50%	5.50%

Plan assets include Company common shares with a fair market value of \$ 38,027 and \$ 45,194 at December 31, 2000 and 1999 respectively.

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 8.0 percent for 2000, decreasing ratably to 5.5 percent in the year 2005. The following table shows the effect of a one-percentage-point change in assumed health care cost trends on:

	<i>1 Percent</i>	
	Increase	Decrease
Year-end benefit obligation	\$755	\$(720)
Total of service and interest cost components	\$ 66	\$ (63)

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.

16. Commitments

The Company leases certain buildings, machinery and equipment under various operating leases. As of December 31, 2000, minimum rental commitments under operating leases were \$5,087, \$9,031, \$2,451, \$1,401, and \$1,510 for 2001, 2002, 2003, 2004, and 2005 respectively. For the remaining years, such commitments amount to \$3,715, aggregating total minimum lease payments of \$23,195. Total rental expense for operating leases amounted to \$6,802, \$7,173, and \$7,383, in 2000, 1999, and 1998, respectively. Additionally, the Company has indirectly guaranteed approximately \$15.5 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 timberlands in the Southeastern 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-cancelable and require minimum annual rental payments. As of December 31, 2000, the future minimum lease payments were \$4,418, \$4,300, \$4,236, \$4,053, and \$4,021 for 2001, 2002, 2003, 2004 and 2005, respectively. For the remaining years, such commitments are \$75,311, aggregating total minimum lease payments of \$96,339 with an average remaining term of 16 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.

On February 22, 2001, the Company received a notice of proposed disallowance from the Internal Revenue Service for \$28.3 million in tax deficiency and related penalties for an issue in dispute regarding the Company's 1996 and 1997 federal tax returns. The Company has been discussing this issue with the IRS since 1999. As a result, the notice of proposed disallowance was not unanticipated and the Company has provided adequate reserves. The Company plans to contest this matter and believes that the ultimate outcome will not have a material impact on the Company's financial position, liquidity or results of operations.

18. Quarterly Results for 2000 and 1999 (Unaudited)

(Thousands of dollars, except per share amounts)	Quarter Ended				
	March 31	June 30	Sept. 30	Dec. 31	Total Year
2000					
Sales	\$ 354,597	\$ 303,911	\$ 269,502	\$ 298,868	\$1,226,878
Operating income	74,653	47,266	33,565	34,027	189,511
Net income	35,473	17,431	12,105	13,178	78,187
Basic EPS	1.30	.64	.45	.48	2.87
Diluted EPS	1.27	.63	.44	.48	2.82
1999					
Sales	\$ 241,921	\$ 276,608	\$ 273,302	\$ 316,204	\$1,108,035
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

As discussed in Note 2, the Company adopted EITF Issue 00-10 and reclassified freight costs from sales to cost of sales. The above quarterly sales amounts have been reclassified for the effect EITF

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 Performance Fibers products and operations, the agency postponed finalizing water discharge rules and certain air emissions rules governing the Company's Performance Fiber mills. The Company continues to work with the EPA to establish such rules for these 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 timberlands. 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 timberlands. 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.

Other Matters

In November 2000, the Company announced that it had hired an investment banker to review strategic alternatives for its MDF facility in New Zealand, including a possible sale.

Issue. Additionally, the sale of land in the first quarter of 2000 has been reclassified from gain on sale of assets (\$23,147) to sales (\$49,600) and cost of sales (\$26,453).

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, 2000 and 1999, for each of the three years in the period ended December 31, 2000, as set forth on pages 25 through 39 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rayonier Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.



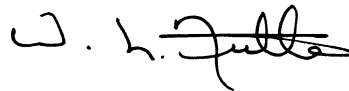
Jacksonville, Florida
February 28, 2001

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 accounting principles generally accepted in the United States 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
Chairman, President and Chief Executive Officer



Gerald J. Pollack
Senior Vice President and Chief Financial Officer

Eleven-Year Summary

Rayonier Inc. and Subsidiaries

Dollar amounts in millions	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Operations											
Sales ^a	\$1,227	\$1,108	\$1,073	\$1,196	\$1,271	\$1,260	\$1,069	\$ 936	\$ 974	\$ 979	\$1,104
Operating income before provision for dispositions	205	136	124	166	159	234	169	130	102	97	190
Provision for dispositions	(15)	—	—	—	(125) ^b	—	—	(3)	(189) ^c	—	—
Operating income (loss)	190	136	124	166	34	234	169	127	(87)	97	190
Income (loss) from continuing operations	78	69	64	87	—	142	70	52	(81)	44	109
Provision for discontinued operations	—	—	—	—	(98) ^d	—	—	—	—	—	(43)
Cumulative effect of accounting changes	—	—	—	—	—	—	—	—	(22)	—	—
Net income (loss)	78	69	64	87	(98)	142	70	52	(103)	44	66
Financial Condition											
Total assets	\$2,162	\$2,280	\$1,601	\$1,596	\$1,598	\$1,648	\$1,524	\$1,488	\$1,487	\$1,382	\$1,366
Total debt	973	1,136	490	426	433	450	483	498	403	205	173
Book value	680	656	639	633	623	769	655	606	676	797	772
Cash Flow											
Cash flow from operations	\$ 278	\$ 213	\$ 159	\$ 238	\$ 234	\$ 213	\$ 190	\$ 118	\$ 133	\$ 132	\$ 193
Total capital expenditures	90	95	95	137	187	143	101	72	97	134	100
Custodial capital spending ¹	70	69	58	72	83	72	67	65	92	100	83
Depreciation, depletion and amortization	164	105	101	99	97	96	90	78	78	69	64
EBITDA ^{2e}	393	253	235	240	237	303	229	187	156	147	234
EBIT ³	202	141	125	138	139	207	139	109	78	78	170
Free cash flow ⁴	205	121	66	122	119	107	90	36	24	11	31
Dividends paid	39	36	35	35	34	30	21	122 ^f	18	20	61
Performance Ratios											
Operating income to sales ⁵	17%	12%	12%	14%	13%	19%	16%	14%	10%	10%	17%
Return on equity ⁶	12%	11%	10%	14%	—	20%	11%	8%	(11)%	6%	14%
Return on assets ⁵	4%	4%	4%	5%	—	9%	5%	4%	(6)%	3%	8%
Debt to capital	59%	63%	43%	40%	41%	37%	43%	45%	37%	20%	18%
Other											
Number of employees	2,300	2,300	2,300	2,500	2,700	2,900	2,700	2,600	2,800	3,000	3,100
Timberlands, in thousands of acres	2,331	2,422	1,447	1,452	1,462	1,473	1,501	1,495	1,496	1,266	1,261

a) Sales for 2000 to 1996 have been reclassified in compliance with Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs."

b) 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.

c) Includes a \$180 million (\$115 million after tax) charge related to the disposition of the Grays Harbor Complex.

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

e) EBITDA for 2000 to 1996 have been reclassified to include the non-cash cost of timberland and real estate.

f) 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, depreciation, depletion, amortization, and the non-cash cost of timberland and real estate sales.

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

Ronald M. Gross, 67, 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. Mr. Gross also serves as a director of Corn Products International, Inc. and The Pittston Company. He is a graduate of Ohio State University and the Harvard University Graduate School of Business Administration.

Paul G. Kirk, Jr., 63, is of Counsel to Sullivan & Worcester, a law firm. Mr. Kirk is a director of Kirk & Associates, Inc., of which he also is Chairman and Treasurer. He is Chairman of the Board of the Directors of the John F. Kennedy Library Foundation. Mr. Kirk also serves as Co-Chairman of the Commission on Presidential Debates and is a director of the Hartford Financial Services Group, Inc. He is a graduate of Harvard College and Harvard Law School.

W. Lee Nutter, 57, 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 was elected to his present position effective January 1, 1999. Mr. Nutter is a graduate of the University of Washington and the Harvard University Graduate School of Business Administration Advanced Management Program.

Katherine D. Ortega, 66, is the former Treasurer of the United States. Ms. Ortega currently serves on the Boards of Directors of Ultramar Diamond Shamrock Corporation, Ralston Purina Company, The Kroger Co. and the Washington Mutual Investors Fund Advisory Board. She is a graduate of Eastern New Mexico University and holds three honorary Doctor of Law Degrees and one honorary Doctor of Social Science Degree.

Burnell R. Roberts, 73, is retired Chairman of the Board and director, Sweetheart Holdings, Inc. and Sweetheart Cup Company. He is also former Chairman and Chief Executive Officer of The Mead Corporation. He serves as a director of DPL Inc. and p4A.com Ltd., and is a trustee of Granum Value Fund. He is a graduate of the University of Wisconsin and the Harvard University Graduate School of Business Administration.

Carl S. Sloane, 64, is Professor Emeritus, Harvard University Graduate School of Business Administration. He is a director of Ionics, Inc., The Pittston Company and Sapien Corporation. He is a graduate of Harvard College and the Harvard University Graduate School of Business Administration.

Ronald Townsend, 59, is a communications consultant and retired President of Gannett Television Group. Townsend currently serves as a director of ALLTEL Corporation, Bank of America Corporation and Winn-Dixie Stores, Inc. He attended City College of New York, Bernard Baruch Business School.

Gordon I. Ulmer, 68, is retired President of the Bank of New England Corporation. He is a director of The Hartford Financial Services Group, Inc. Mr. Ulmer is a graduate of Middlebury College, the American Institute of Banking and the Harvard University Graduate School of Business Administration Advanced Management Program and attended New York University's 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
Ronald Townsend

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
Ronald Townsend

W. Lee Nutter, 57
Chairman, President and
Chief Executive Officer (33)

William S. Berry, 59
Executive Vice President,
Forest Resources and
Wood Products (20)

William A. Kindler, 57
Senior Vice President,
Specialty Pulp (4)

John P. O'Grady, 55
Senior Vice President,
Administration (9)

Gerald J. Pollack, 59
Senior Vice President and
Chief Financial Officer (18)

Parag Bhansali, 39
Vice President,
Investor Relations (1)

Paul G. Boynton, 36
Vice President,
Specialty Pulp Marketing and
Sales (2)

Timothy H. Brannon, 53
Vice President,
Asia Pacific
Managing Director,
Rayonier New Zealand (28)

Richard B. Chapas, 55
Vice President,
New Products (6)

Royce Daniel, 49
Vice President,
Research and Development (26)

William D. Ericksen, 56
Vice President,
Forest Resources and
Wood Procurement (29)

Jay A. Fredericksen, 55
Vice President,
Corporate Relations (24)

Charles Margiotta, 48
Vice President,
Corporate Development and
Strategic Planning (24)

Grant J. Munro, 52
Vice President,
Forest Resources and
Trading (19)

Eric W. Schrumm, 53
Vice President,
Information Technology (6)

Charles R. Snavely, 46
Vice President,
Finance and Taxes (1)

Jill Witter, 47
Vice President and
General Counsel (*)

Macdonald Auguste, 52
Treasurer (25)

W. Edwin Frazier, 43
Associate General Counsel and
Corporate Secretary (2)

() Years of service with Rayonier
Average length of service: 15 years

(*) Less than one year

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

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 18,791 shareholders of record as of February 28, 2001.

Common Stock Activity

	High	Low	Composite Volume 100s	Dividend
2000				
Fourth Quarter	41$\frac{3}{16}$	31$\frac{1}{4}$	70327	\$.36
Third Quarter	43$\frac{1}{2}$	35	46017	.36
Second Quarter	48$\frac{7}{8}$	35$\frac{5}{16}$	68162	.36
First Quarter	48$\frac{3}{4}$	35$\frac{1}{16}$	60421	.36
1999				
Fourth Quarter	48 $\frac{9}{16}$	36 $\frac{1}{4}$	51487	\$.36
Third Quarter	52 $\frac{7}{8}$	36 $\frac{11}{16}$	52336	.31
Second Quarter	51 $\frac{3}{16}$	39 $\frac{5}{16}$	36273	.31
First Quarter	46 $\frac{7}{8}$	38 $\frac{3}{4}$	31249	.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 U.S., 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 U.S., 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 Parag Bhansali, Investor Relations, 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, at no charge, upon request from the Investor Relations Department at the above address. You may also request these 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 listen to a recording of our most recent 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 its 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 Web site at <http://www.stockbny.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 17, 2001, at the Omni Hotel, 245 Water Street, Jacksonville, FL.



75 Years of Excellence

Rayonier

Rayonier Inc.
50 North Laura Street
Jacksonville, FL 32202

www.rayonier.com