



**Rayonier**  
Second Quarter 2004  
Supplemental  
Material

# Safe Harbor

---

Reported results are preliminary and not final until filing of the Second Quarter 2004 Form 10-Q with the Securities and Exchange Commission. Comments about market trends, anticipated demand, volumes, pricing, expenses, earnings, taxes and dividends are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: changes in global market trends and world events; interest rate and currency movements; fluctuations in demand for cellulose specialties, absorbent materials, timber, wood products or real estate; adverse weather conditions; changes in production costs for wood products or performance fibers, particularly for raw materials such as wood, energy and chemicals; unexpected delays in the closing of land sale transactions; the Company's ability to satisfy complex rules in order to qualify as a REIT; and implementation or revision of governmental policies and regulations affecting the environment, import and export controls or taxes, including changes in tax laws that could reduce the benefits associated with REIT status. For additional factors that could impact future results, please see the company's most recent Form 10-K on file with the Securities and Exchange Commission.

# Rayonier

## Second Quarter - Highlights

(\$ Millions - Except Per Share Data)

	2Q 2004	Variance to	
		1Q 2004	2Q 2003
<b><u>Profitability</u></b>			
Sales	337	43	41
Operating Income	70	28	16
Net Income	44	18 *	12
Earnings Per Share	0.86	(0.63)	0.12
Proforma Earnings Per Share	0.86	0.35 *	0.21 **
ROE Annualized ***	17.4%	6.7%	11.2%

	Six Months Ended June 30,	
	2004	Variance to 2003
<b><u>Capital Resources and Liquidity</u></b>		
Cash Provided by Operating Activities	158	49
Cash Used for Investing Activities	(66)	(33)
Cash Used for Financing Activities	(47)	1
Cash Available for Distribution (CAD)****	121	45
Adjusted EBITDA ****	202	42
Debt	616	7
Debt / Capital	44.1%	1.7%

\* Excludes reversal of deferred taxes not required after REIT conversion of \$77.9 million or \$1.53 per share and additional taxes for repatriation of foreign earnings of (\$28.2) million or (\$0.55) per share, for a net effect of \$49.7 million or \$0.98 per share.

\*\* Includes proforma effect of 15% share dilution due to special REIT dividend.

\*\*\* Major land sales and REIT conversion costs are not annualized.

\*\*\*\* Non-GAAP measures (see pages 20 and 21 for definitions and reconciliations).

# Rayonier

## Quarter to Quarter Comparisons - 2Q 04 to 1Q 04

(\$ Millions - Except EPS)

	Pre- Tax	Net Income	EPS
<b>2004 1Q - Income</b>	<b>32</b>	<b>26*</b>	<b>0.51 *</b>
Variance			
Timber and Land			
- Timber Price / Mix	(1)	-	(0.01)
- Timber Volume / Other	(2)	(2)	(0.03)
- Land Sales	11	7	0.14
Performance Fibers			
- Price / Mix	2	1	0.03
- Cost / Volume / Other	10	7	0.12
Wood Products			
- Lumber	5	3	0.06
- MDF	-	-	-
Other Operations	-	-	(0.01)
Corporate / Other	3	2	0.03
<b>Operating Income</b>	<b>28</b>	<b>18</b>	<b>0.33</b>
Interest Expense	(1)	(1)	(0.01)
Other	-	-	0.01
Taxes	-	1	0.02
<b>2004 2Q - Income</b>	<b>59</b>	<b>44</b>	<b>0.86</b>

\* 1Q 04 excludes reversal of deferred taxes not required after REIT conversion of \$77.9 million or \$1.53 per share and additional taxes for repatriation of foreign earnings of (\$28.2) million or (\$0.55) per share, for a net effect of \$49.7 million or \$0.98 per share.

# Rayonier

## Second Quarter / First Half Comparisons - 2004 to 2003

(\$ Millions - Except EPS)

	Second Quarter			First Half		
	Pre-Tax	Net Income	EPS	Pre-Tax	Net Income	EPS
<b>2003</b>	<b>42</b>	<b>32</b>	<b>0.65*</b>	<b>50</b>	<b>40</b>	<b>0.82*</b>
Variance						
Timber and Land						
- Timber Price	5	3	0.07	9	6	0.12
- Timber Volume / Other	4	3	0.04	6	4	0.07
- Land Sales	(13)	(8)	(0.16)	2	1	0.02
Performance Fibers						
- CS Price / Mix	7	4	0.08	11	7	0.14
- AM Price / Mix	1	1	0.02	5	3	0.07
- Volume / Cost / Other	8	5	0.10	7	5	0.08
Wood Products						
- Lumber	8	5	0.10	12	8	0.15
- MDF	(1)	-	(0.01)	(2)	(1)	(0.02)
Other Operations	3	1	0.03	5	3	0.06
Corporate / Other	(5)	(3)	(0.06)	(15)	(10)	(0.19)
<b>Operating Income</b>	<b>17</b>	<b>11</b>	<b>0.21</b>	<b>40</b>	<b>26</b>	<b>0.50</b>
Interest Expense	1	-	-	2	1	0.02
Other	(1)	-	(0.03)	(1)	-	(0.04)
Taxes	-	1	0.03	-	3	0.07
<b>2004</b>	<b>59</b>	<b>44</b>	<b>0.86</b>	<b>91</b>	<b>70**</b>	<b>1.37**</b>

\* Includes proforma effect of 15% share dilution due to special REIT dividend: reported amount was \$0.74 for 2Q 03 and \$0.94 for first half 2003.

\*\* 1Q 04 excludes reversal of deferred taxes not required after REIT conversion of \$77.9 million or \$1.53 per share and additional taxes for repatriation of foreign earnings of (\$28.2) million or (\$0.55) per share, for a net effect of \$49.7 million or \$0.98 per share.

# Rayonier

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

	Six Months Ended			
	June 30, 2004		June 30, 2003	
	\$	%	\$	%
Income tax provision at the U.S. statutory rate	\$ 31.8	35.0	\$ 17.5	35.0
REIT income not subject to federal tax (\$60.3)	(21.1)	(23.2)	-	-
Lost deduction on REIT interest expense and overhead expenses associated with REIT activities (\$23.6)	8.3	9.0	-	-
State and local income taxes, foreign exchange rate changes and permanent differences	3.8	4.3	(5.2)	(10.3)
Income tax provision before discrete items *	\$ 22.8	25.1	\$ 12.3	24.7
Exchange rate changes on tax on undistributed foreign earnings	(1.6)	(1.8)	-	-
Tax benefit from interim partial IRS settlement	-	-	(2.3)	(4.7)
Income tax expense *	\$ 21.2	23.3	\$ 10.0	20.0

\* Six months ended June 30, 2004 exclude first quarter reversal of deferred taxes not required after REIT conversion of (\$77.9) million and additional taxes for repatriation of foreign earnings of \$28.2 million.

# Rayonier

## Reconciliation of Adjusted EBITDA to CAD

(\$ Millions)

	Six Months Ended	
	June 30, 2004	June 30, 2003
<b>Adjusted EBITDA</b>	\$ 202.0	\$ 160.2
Capital spending, net	(35.5)	(32.7)
Income tax (expense) benefit *	(21.2)	(10.0)
Interest expense	(23.2)	(24.8)
Working capital changes	5.1	(23.0)
Other balance sheet changes *	(5.0)	6.4
Tax benefit on exercise of stock options	<u>(1.7)</u>	<u>(0.8)</u>
<b>Cash Available for Distribution (CAD)</b>	<u>\$ 120.5</u>	<u>\$ 75.3</u>

\* Excludes reversal of deferred taxes not required after REIT conversion of \$77.9 million and additional taxes for repatriation of foreign earnings of (\$28.2) million.

# Rayonier

## 83,000 Acre Alabama Timberland Acquisition Funding \*

(\$ Millions)

Land Sales Exchanged (After Tax) **	\$20
Like-kind Exchange Tax Benefits	11
Available Internally Generated Cash	<u>58</u>
	\$89

\* Acquisition anticipated to close third quarter 2004.

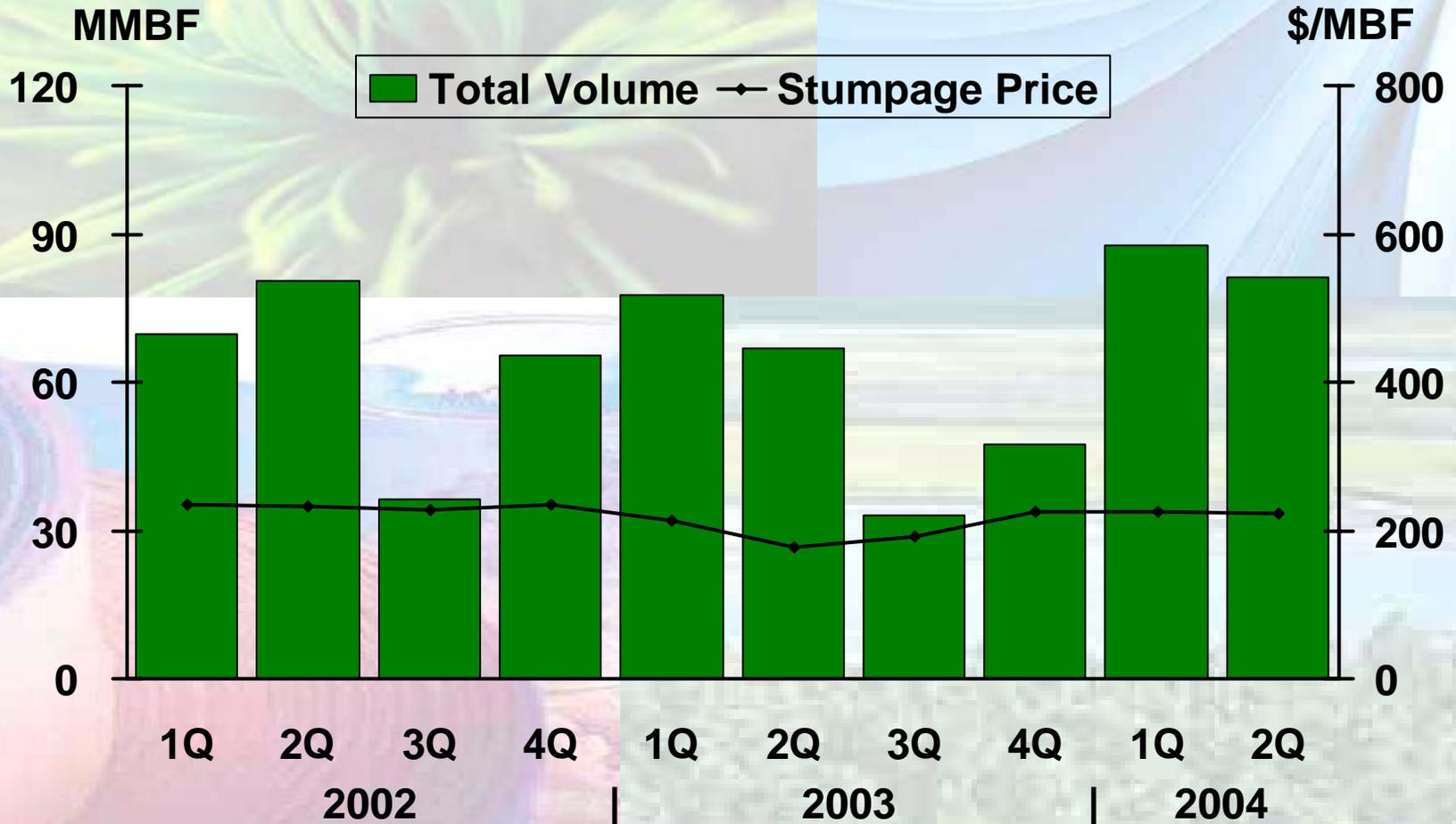
\*\* After-tax proceeds from second quarter 5,487 acre timber harvest lease sale (\$26 million) and other first half 2004 sales.



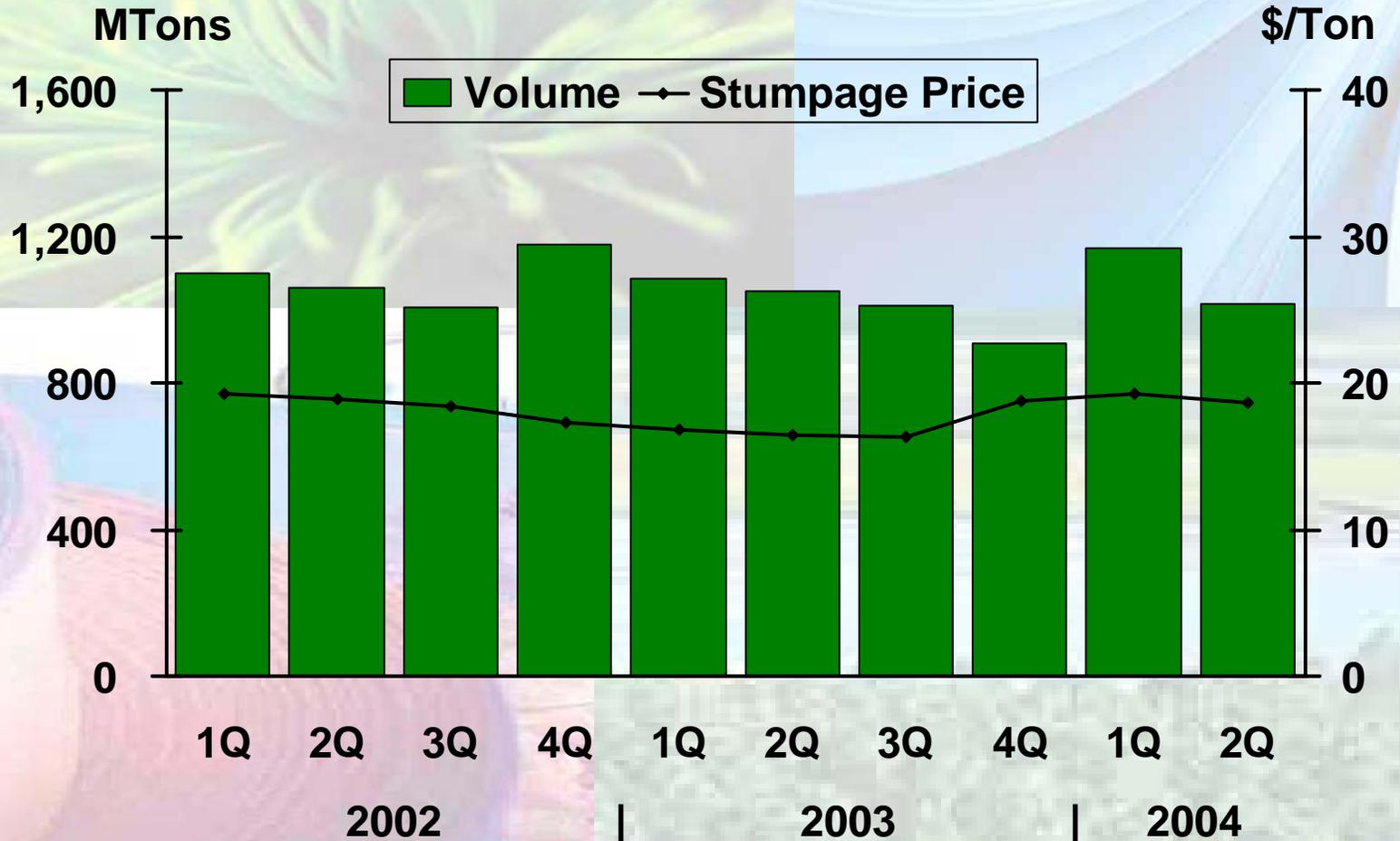
**Rayonier**

**Markets and Operations**

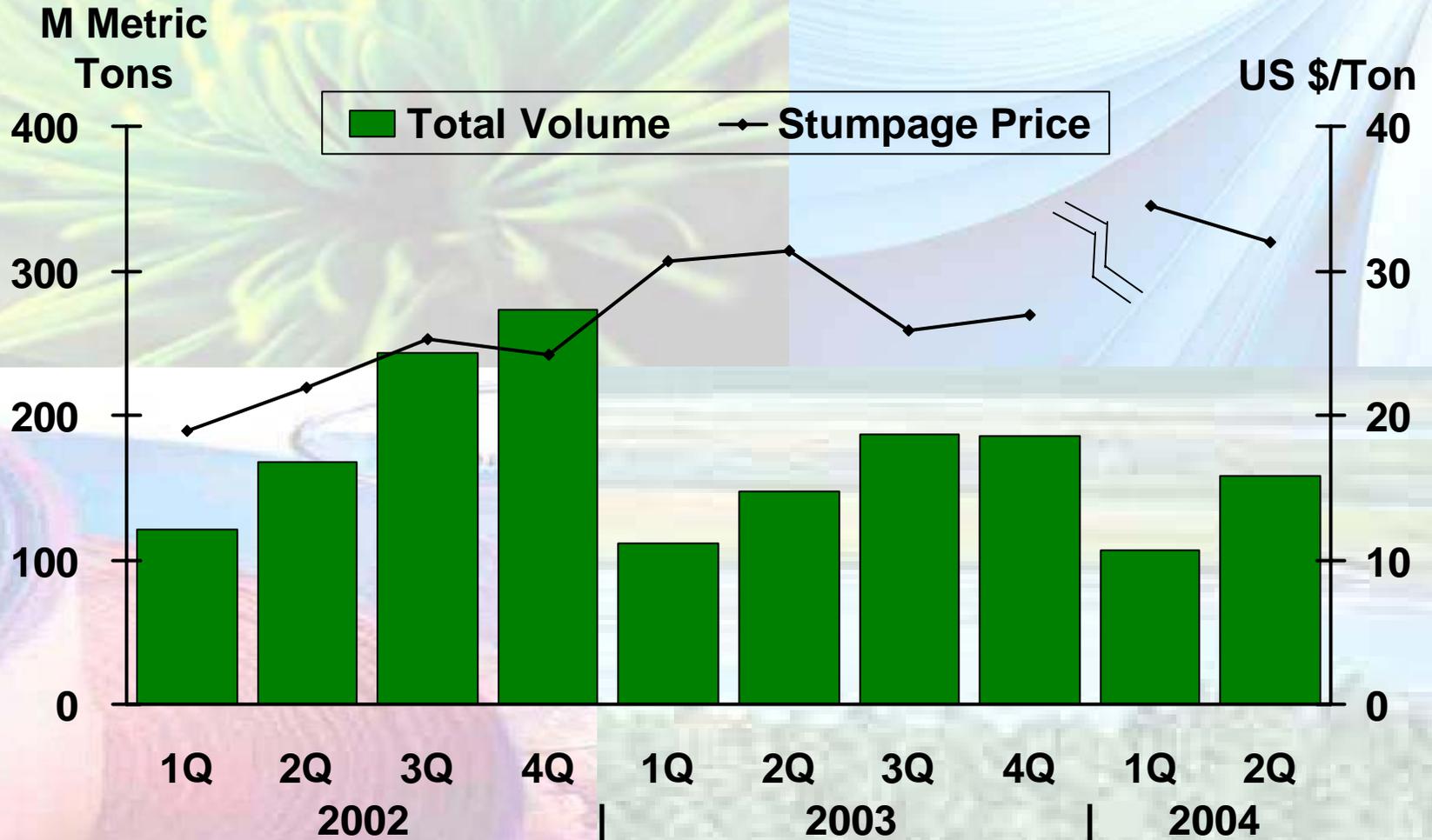
# Rayonier Northwest Timber Sales



# Rayonier Southeast Pine Timber Sales

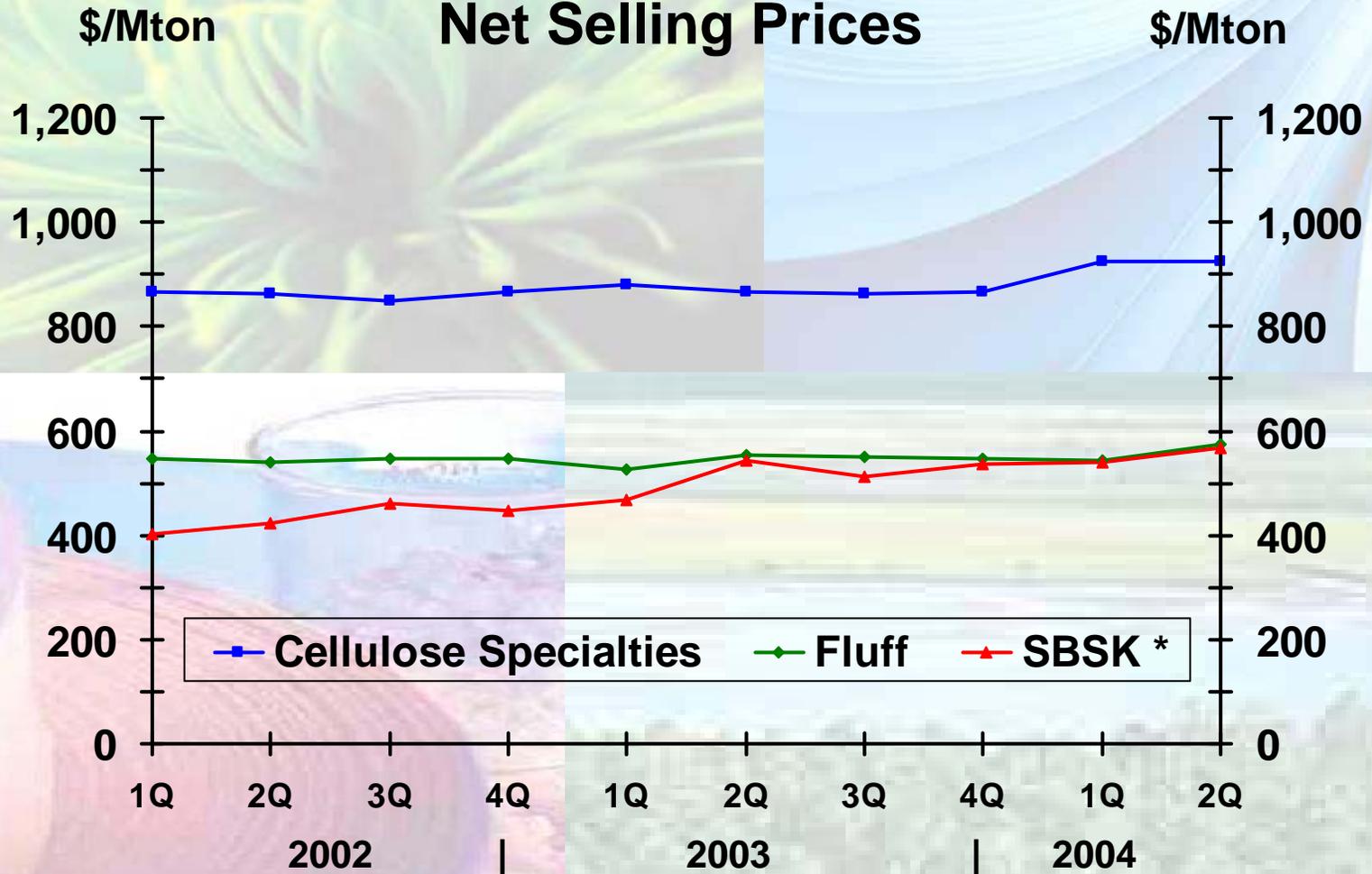


# Rayonier New Zealand Timber Sales



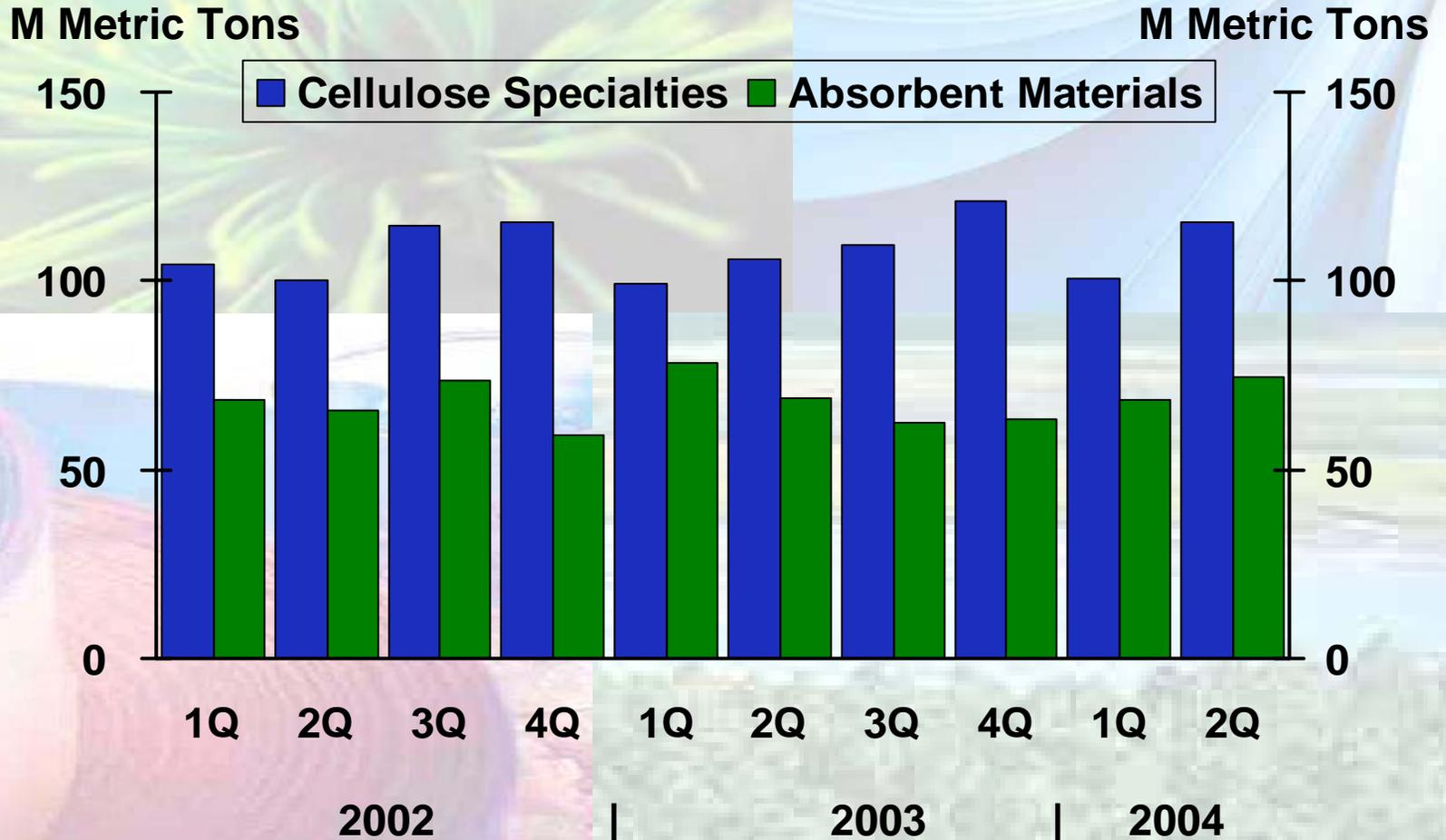
Note: 2004 prices exclude lower value timber sold as logs.

# Rayonier Performance Fibers Net Selling Prices



\* Source: RISI gross price less typical discounts

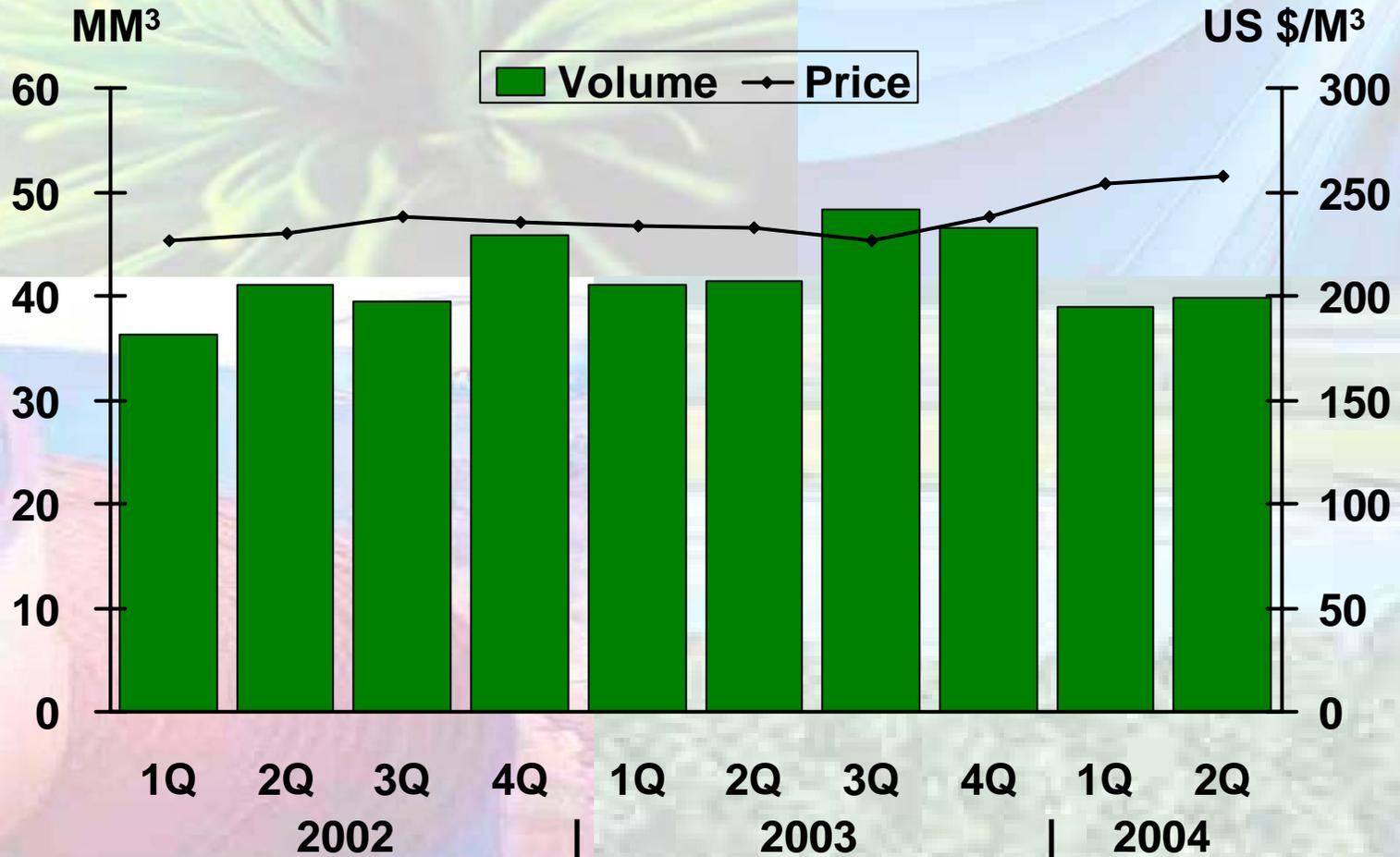
# Rayonier Performance Fibers Sales Volumes



# Rayonier Wood Products Southeast Lumber



# Rayonier Wood Products Medium Density Fiberboard (MDF)



# Rayonier 2004 Dividend Tax Characteristics to Shareholder

Capital Gains

Return of Capital

Ordinary Income

Current  
Outlook

50 – 60%

50 – 40%

0

100%

# Rayonier Earnings Per Share (\$)

	2004	2003	
		Proforma ***	As Reported
First Quarter	0.51 *	0.17	0.20 ****
Second Quarter	0.86	0.65	0.74
Third Quarter	Down ↓ ? ** ←	Up → 0.16	0.19
Fourth Quarter		0.04	0.04
Full Year	? ** ←	Up → 1.02	1.16
First Call Estimate for 2004 - 7/27/04	2.06		

\* Excludes reversal of deferred taxes not required after REIT conversion of \$1.53 per share and additional taxes for repatriation of foreign earnings of (\$0.55) per share - net \$0.98 per share.

\*\* Excluding like-kind exchange related tax benefits.

\*\*\* Earnings adjusted to reflect proforma effect of 15 percent share dilution due to special REIT dividend.

\*\*\*\* Restated to reflect June 2003 3 for 2 stock split.

Note: Includes REIT expenses - 2004 (\$0.07 in 1Q, \$0.00 in 2Q), 2003 (\$0.01 in 2Q, \$0.08 in 3Q and \$0.03 in 4Q) and estimated REIT related delays in realizing Northwest timber earnings - (\$0.06 in 4Q 2003 to 2004).



# Rayonier

# Appendix

# Rayonier

## RECONCILIATION OF NON-GAAP MEASURES

(\$ Millions)

	Six Months Ended	
	June 30, 2004	June 30, 2003
<b>Cash Available for Distribution (CAD)</b>		
Cash provided by operating activities	\$ 157.7	\$ 108.8
Capital spending (b)	(35.5)	(32.7)
Tax benefit on exercise of stock options	(1.7)	(0.8)
Cash Available for Distribution (CAD)	<u>\$ 120.5</u>	<u>\$ 75.3</u>

(a) CAD includes \$30.5 million of restricted cash to be used for the Alabama timberland purchase.

(b) Capital Spending is net of proceeds from retirements.

### Adjusted EBITDA

Cash provided by operating activities	\$ 157.7	\$ 108.8
Income tax (benefit) expense	(28.5)	10.0
Interest expense	23.2	24.8
Working capital increases (decreases)	(5.1)	23.0
Other balance sheet changes	54.7	(6.4)
Adjusted EBITDA	<u>\$ 202.0</u>	<u>\$ 160.2</u>

# Rayonier

## DEFINITIONS OF NON-GAAP MEASURES

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

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

# Rayonier

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

	Three Months Ended						Six Months Ended			
	June 30, 2004		March 31, 2004		June 30, 2003		June 30, 2004		June 30, 2003	
	\$	%	\$	%	\$	%	\$	%	\$	%
Income tax provision at the U.S. statutory rate	\$20.6	35.0	\$ 11.2	35.0	\$14.7	35.0	\$ 31.8	35.0	\$17.5	35.0
REIT income not subject to federal tax	(14.2)	(24.2)	(6.9)	(21.5)	-	-	(21.1)	(23.2)	-	-
Lost deduction on REIT interest expense and overhead expenses associated with REIT activities	6.5	11.3	1.8	5.7	-	-	8.3	9.0	-	-
State and local income taxes, foreign exchange rate changes and permanent differences	3.6	6.1	0.2	0.2	(4.4)	(10.4)	3.8	4.3	(5.2)	(10.3)
Income tax provision before discrete items *	\$16.5	28.2	\$ 6.3	19.4	\$10.3	24.6	\$ 22.8	25.1	\$12.3	24.7
Exchange rate changes on tax on undistributed foreign earnings	(1.6)	(2.8)	-	-	-	-	(1.6)	(1.8)	-	-
Tax benefit from interim partial IRS settlement	-	-	-	-	-	-	-	-	(2.3)	(4.7)
Income tax expense (benefit) *	<u>\$14.9</u>	<u>25.4</u>	<u>\$ 6.3</u>	<u>19.4</u>	<u>\$10.3</u>	<u>24.6</u>	<u>\$ 21.2</u>	<u>23.3</u>	<u>\$10.0</u>	<u>20.0</u>

\* First quarter and six months ended June 30, 2004 exclude first quarter reversal of deferred taxes not required after REIT conversion of (\$77.9) million and additional taxes for repatriation of foreign earnings of \$28.2 million.