# Rayonier Reports Fourth Quarter 2002 Earnings

January 21, 2003

JACKSONVILLE--(BUSINESS WIRE)--Jan. 21, 2003--Rayonier (NYSE:RYN) today reported fourth quarter net income of $12.9 million, or 46 cents per share, compared to $15.7 million, or 56 cents per share, in third quarter 2002 and $7.9 million, or 28 cents per share, in fourth quarter 2001. Net income for full year 2002 was $54.2 million, or $1.92 per share, compared to $57.6 million, or $2.09 per share, in 2001.

Lee Nutter, Chairman, President and CEO said: "Despite difficult economic conditions, once again we had a solid year due to continued strong demand for our cellulose specialty products and contributions from the sale of higher value lands. In addition, our strong cash flow throughout the year enabled us to reduce debt by 25 percent, further strengthening our balance sheet."

Fourth quarter 2002 income from continuing operations was $12.8 million, or 46 cents per share, compared to $15.6 million, or 55 cents per share, in third quarter 2002 and $7.3 million, or 25 cents per share, in fourth quarter 2001. Income from continuing operations for full year 2002 was $54.9 million, or $1.95 per share, compared to $56.9 million, or $2.06 per share, in 2001. Fourth quarter results were below third quarter largely due to lower land sales, higher performance fibers' manufacturing costs, an increase in disposition reserves and higher interest costs, partially offset by increased U.S. timber volume and favorable tax benefits. Results were above fourth quarter 2001 primarily due to performance fibers' lower manufacturing costs and increased sales volumes, higher Northwest U.S. timber prices and favorable tax benefits, partially offset by lower land sales.

Fourth quarter 2002 included several items of note: a $2.7 million increase ($1.7 million after tax) in disposition reserves related to closed facilities in the Northwest U.S.; tax deficiency interest of $3.5 million ($2.3 million after tax) for 1996-1999 tax audits; and approximately $5 million in earnings mainly due to tax benefits related to the appreciation of the New Zealand dollar. The net impact of these items on income from continuing operations was a favorable $1 million, or 4 cents per share.

Sales of $286 million were $7 million below third quarter but $32 million above fourth quarter 2001. The decrease from third quarter was primarily due to lower absorbent materials volume and land sales, partially offset by higher timber volume. The year over year improvement was primarily due to higher cellulose specialties volume and increased Southeast U.S. timber volumes and land sales. Sales in 2002 were $1.1 billion, essentially in line with 2001.

Cash flow provided by operating activities for the year was $250 million compared to $228 million in 2001. Debt at year-end was $641 million, resulting in a debt-to-capital ratio of 47.5 percent.

EBITDA in 2002 was $308 million compared to $330 million in 2001. Free cash flow for the year was $142 million compared to $126 million in 2001. Net debt at year-end was $627 million, $67 million lower than third quarter and $215 million below year-end 2001. The net debt-to-capital ratio of 46.9 percent reflects a decline of 1.6 and 7.4 percentage points from third quarter 2002 and year-end 2001, respectively. (Each of these non-GAAP measures is defined in Exhibit A.)

Performance Fibers

Sales of $134 million were $6 million below third quarter primarily due to lower absorbent materials volume, partly offset by higher cellulose specialties prices. Operating income of $7 million was $4 million below third quarter principally due to higher raw material and maintenance costs, partially offset by higher cellulose specialties prices. Compared to fourth quarter 2001, sales and operating income increased $8 million and $4 million, respectively. Sales improved due to higher cellulose specialties volume while operating income improved due to reduced wood and chemical costs and higher cellulose specialties volume.

Timber and Land

Sales of $64 million were comparable to third quarter while operating income of $30 million was down $3 million primarily due to lower land sales and a $4 million unfavorable impact of balance sheet foreign exchange translation, partially offset by higher timber volumes. Compared to fourth quarter 2001, sales increased $9 million while operating income decreased $2 million. Sales improved mainly due to stronger Southeast U.S. timber volume and higher land sales. Operating income, however, declined largely due to a $2.3 million unfavorable impact of balance sheet foreign exchange translation.

Wood Products and Trading

Sales of $90 million and an operating loss of $5 million were comparable to third quarter levels. A $1 million favorable impact of balance sheet foreign exchange translation in this segment was offset by lower lumber prices. Compared to fourth quarter 2001, sales improved $15 million while the operating loss was unchanged, as higher MDF prices were offset by lower lumber prices.

Other Items

Corporate and other expense of $2.1 million was $1.2 million below third quarter and $3.1 million below fourth quarter 2001. Expenses were lower compared to third quarter primarily due to a $4.8 million favorable impact of balance sheet foreign exchange translation, partially offset by higher incentive compensation costs. The improvement from fourth quarter 2001 was primarily the result of a $3.4 million favorable impact of balance sheet foreign exchange translation.

Interest expense of $17 million was $3 million above third quarter and $1 million above fourth quarter 2001 primarily due to the $3.5 million tax deficiency interest as a result of recent IRS settlement proposals relating to outstanding tax audit issues. Interest expense on outstanding debt was below both prior periods.

A tax benefit for the quarter of $1.8 million resulted principally from approximately $3 million in benefits from a 10 percent appreciation of the New Zealand dollar vs. the U.S. dollar and the realization of $1 million of previously unrecognized foreign tax benefits. Previous foreign exchange related tax effects included a $1 million expense in third quarter 2002 and a benefit of $2 million in fourth quarter 2001. The unusually low effective annual tax rate of 21.3 percent compared to an estimated annual effective tax rate of 28.4 percent at the end of September 2002, and 29.4 percent for full year 2001.

Pension Liabilities

As anticipated in Rayonier's third quarter 2002 earnings release, due to the severe decline in U.S. equity markets and lower interest rates, the company recorded a year-end, non-cash, after-tax charge of $32 million to Shareholders' Equity for additional pension liabilities. The company continues to expect pension expense for 2003 to increase by approximately $4 million over the $3.4 million recorded in 2002.

Additional Items

Rayonier is undergoing a re-audit of fiscal years 2000 and 2001 as required by generally accepted auditing standards when a company has discontinued operations and its prior years' auditors have ceased operations. The company does not anticipate any material changes to prior years' financial statements due to the re-audits, which are expected to be completed shortly.

Outlook

"We expect a slow start to the year with first quarter earnings well below first quarter 2002 due to the timing both of land sales and performance fibers' shipments, weaker timber markets and increased raw material and energy costs," Nutter said. "However, continued strong demand for our high value cellulose specialty products and anticipated land sales should provide a solid earnings base for the year."

Rayonier is the world's premier supplier of high performance specialty cellulose fibers and has 2.2 million acres of timberland in the U.S. and New Zealand. Approximately 45 percent of Rayonier's sales are outside the U.S. to customers in 60 countries.

Comments about anticipated demand, expenses and earnings 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; changes in capital markets and the resulting impact on returns on the company's pension plan assets; fluctuations in demand for cellulose specialties, absorbent materials, timber, and wood products; adverse weather conditions; changes in production costs for wood products and performance fibers, particularly for raw materials such as wood, energy and chemicals; unexpected delays in the closing of land sale transactions; and implementation or revision of governmental policies and regulations affecting the environment, import and export controls and taxes. 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.

A conference call will be held on Wednesday, January 22 at 4:15 p.m. EST to discuss these results. Interested parties are invited to listen to the live webcast by logging onto http://www.rayonier.com and following the link. Supplemental materials will be available at the website. A replay will also be available on the site shortly after the call. Also, investors may access the "listen only" conference call by dialing 913-981-5584.

For further information, visit the company's web site at http://www.rayonier.com. Complimentary copies of Rayonier press releases and other financial documents are also available by mail or fax by calling 1-800-RYN-7611.

RAYONIER
FINANCIAL HIGHLIGHTS (i)
DECEMBER 31, 2002 (unaudited)

(millions of dollars, except per share information)

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2002 | September 30, 2002 | December 31, 2001 | December 31, 2002 | December 31, 2001 |
| Profitability | | | | | |
| Sales | $286.3 | $293.1 | $253.9 | $1,117.4 | $1,123.8 |
| Operating income before provision for dispositions | $29.7 | $35.3 | $24.2 | $131.9 | $147.9 |
| Provision for dispositions | $(2.7) | $- | $- | $(2.7) | $- |
| Operating income | $27.0 | $35.3 | $24.2 | $129.2 | $147.9 |
| Income from continuing operations | $12.8 | $15.6 | $7.3 | $54.9 | $56.9 |
| Discontinued operations | $0.1 | $0.1 | $0.6 | $(0.7) | $0.7 |
| Net income (after disc. ops) | $12.9 | $15.7 | $7.9 | $54.2 | $57.6 |
| Diluted earnings per share: | | | | | |
| Continuing operations | $0.46 | $0.55 | $0.25 | $1.95 | $2.06 |
| Net income (after disc. | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| ops) | $0.46 | $0.56 | $0.28 | $1.92 | $2.09 |
| Operating income as a percent of sales | 9.4% | 12.0% | 9.5% | 11.6% | 13.2% |
| ROE (annualized)(a) | 6.5% | 6.6% | 2.0% | 7.7% | 8.2% |
| Capital Resources and Liquidity | | | | | |
| Cash provided by operating activities of continuing operations | $48.1 | $72.8 | $15.3 | $249.8 | $227.9 |
| EBITDA (b) | $75.5 | $81.3 | $61.8 | $307.5 | $330.2 |
| Free cash flow (c) | $22.1 | $41.2 | $(11.4) | $141.8 | $126.3 |
| Repayment of debt, net | $87.6 | $40.4 | $5.0 | $210.2 | $123.2 |
| Debt | $641.1 | $728.8 | $849.8 | $641.1 | $849.8 |
| Net debt (d) | $627.1 | $693.7 | $842.5 | $627.1 | $842.5 |
| Net debt / capital | 46.9% | 48.5% | 54.3% | 46.9% | 54.3% |

(a) From continuing operations; major land sales are not annualized.

(b) EBITDA is defined as earnings from continuing operations before significant non-recurring items, interest expense, income taxes, depreciation, depletion, amortization and the non-cash cost of land sales. EBITDA is a non-GAAP measure of gross cash generating capacity of the company.

(c) Free Cash Flow is defined as cash provided by operating activities of continuing operations less net custodial capital spending, dividends at prior year level and the tax benefit on the exercise of stock options. Free cash flow is a non-GAAP measure of discretionary cash available to shareholders or to grow earnings.

(d) Net debt is defined as debt less cash invested and intended for debt reduction of $14.0, $35.1 and $7.3, at 12/31/02, 9/30/02, and 12/31/01, respectively. Net debt is a non-GAAP measure of anticipated debt levels.

(i) Prior period amounts were reclassified to reflect the New Zealand East Coast operations as discontinued operations.



RAYONIER
STATEMENTS OF CONSOLIDATED INCOME (i)
DECEMBER 31, 2002 (unaudited)

(millions of dollars, except per share information)

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2002 | September 30, 2002 | December 31, 2001 | December 31, 2002 | December 31, 2001 |
| Sales | $286.3 | $293.1 | $253.9 | $1,117.4 | $1,123.8 |
| Costs and expenses | | | | | |
| Cost of sales | 251.3 | 248.0 | 221.1 | 949.4 | 943.5 |

| | | | | | |
|---|---|---|---|---|---|
| Selling and general expenses | 12.2 | 8.4 | 11.7 | 42.4 | 36.3 |
| Other operating expense (income) | (6.9) | 1.4 | (3.1) | (6.3) | (3.9) |
| Operating income before dispositions | 29.7 | 35.3 | 24.2 | 131.9 | 147.9 |
| Provision for dispositions | 2.7 | - | - | 2.7 | - |
| Operating income | 27.0 | 35.3 | 24.2 | 129.2 | 147.9 |
| Interest expense | (16.8) | (14.3) | (16.2) | (61.4) | (69.1) |
| Interest and miscellaneous income (expense), net | 0.8 | 0.9 | 0.7 | 2.0 | 1.9 |
| Income from continuing operations before income taxes | 11.0 | 21.9 | 8.7 | 69.8 | 80.7 |
| Income tax benefit (expense) | 1.8 | (6.3) | (1.4) | (14.9) | (23.8) |
| Income from continuing operations | $12.8 | $15.6 | $7.3 | $54.9 | $56.9 |
| Discontinued operations, net | 0.1 | 0.1 | 0.6 | (0.7) | 0.7 |
| Net income (after disc. ops) | $12.9 | $15.7 | $7.9 | $54.2 | $57.6 |
| Net income per Common Share | | | | | |
| Basic EPS | | | | | |
| From continuing operations | $0.46 | $0.55 | $0.26 | $1.98 | $2.09 |
| Net income (after disc. ops) | $0.47 | $0.56 | $0.29 | $1.96 | $2.12 |
| Diluted EPS | | | | | |
| From continuing operations | $0.46 | $0.55 | $0.25 | $1.95 | $2.06 |

| | | | | | |
|---|---|---|---|---|---|
| Net income (after disc. ops) | $0.46 | $0.56 | $0.28 | $1.92 | $2.09 |

Weighted average Common Shares used for determining

| | | | | | |
|---|---|---|---|---|---|
| Basic EPS | 27,717,458 | 27,753,428 | 27,282,588 | 27,681,785 | 27,210,802 |
| Diluted EPS | 28,076,363 | 28,201,286 | 27,669,616 | 28,157,576 | 27,601,898 |

(i) Prior period amounts were reclassified to reflect the New Zealand East Coast operations as discontinued operations.

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RAYONIER
BUSINESS SEGMENT SALES AND OPERATING INCOME (i)
DECEMBER 31, 2002 (unaudited)

(millions of dollars)

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2002 | September 30, 2002 | December 31, 2001 | December 31, 2002 | December 31, 2001 |
| Sales | | | | | |
| Performance Fibers | | | | | |
| Cellulose specialties | $100.3 | $97.4 | $86.6 | $374.9 | $368.6 |
| Absorbent materials | 33.3 | 41.7 | 38.9 | 151.2 | 178.4 |
| Total Performance Fibers | 133.6 | 139.1 | 125.5 | 526.1 | 547.0 |
| Timber and Land | | | | | |
| Timber | 48.3 | 35.8 | 41.7 | 171.8 | 188.6 |
| Land | 15.3 | 28.3 | 13.0 | 75.3 | 83.9 |
| Total Timber and Land | 63.6 | 64.1 | 54.7 | 247.1 | 272.5 |
| Wood Products and Trading | 89.9 | 90.8 | 74.8 | 353.6 | 316.6 |
| Intersegment eliminations | (0.8) | (0.9) | (1.1) | (9.4) | (12.3) |
| Total sales | $286.3 | $293.1 | $253.9 | $1,117.4 | $1,123.8 |

Operating income (loss)
Performance

| | | | | | |
|---|---|---|---|---|---|
| Fibers | $6.5 | $10.8 | $2.6 | $34.6 | $35.1 |
| Timber and Land | | | | | |
| Timber | 20.6 | 14.2 | 20.9 | 76.4 | 93.7 |
| Land | 9.4 | 18.6 | 10.8 | 47.3 | 51.6 |
| Total Timber and Land | 30.0 | 32.8 | 31.7 | 123.7 | 145.3 |
| Wood Products and Trading | (4.7) | (5.0) | (4.9) | (12.1) | (13.5) |
| Corporate and other | (2.1) | (3.3) | (5.2) | (14.3) | (19.0) |
| Operating income before dispositions | 29.7 | 35.3 | 24.2 | 131.9 | 147.9 |
| Provision for dispositions | (2.7) | - | - | (2.7) | - |
| Total operating income | $27.0 | $35.3 | $24.2 | $129.2 | $147.9 |

(i) Prior period amounts were reclassified to reflect the New Zealand East Coast operations as discontinued operations.



RAYONIER
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (i)
DECEMBER 31, 2002 (unaudited)

(millions of dollars)

| | Year Ended December 31, 2002 | Year Ended December 31, 2001 |
|---|---|---|
| Continuing operations | | |
| Income from continuing operations | $54.9 | $56.9 |
| Non-cash items included in income | 184.1 | 192.2 |
| Changes in working capital and other assets and liabilities | 10.8 | (21.2) |
| Cash provided by operating activities | 249.8 | 227.9 |
| Capital expenditures, net of sales and retirements | (76.6) | (74.3) |
| Repayment of debt, net | (210.2) | (123.2) |
| Dividends paid, share repurchases, shares issued | (28.7) | (31.9) |
| Cash used for financing activities | (238.9) | (155.1) |

| | | |
|---|---|---|
| Cash provided by discontinued operations | 70.5 | 5.8 |
| Cash and equivalents | | |
| Increase in cash and cash equivalents | 4.8 | 4.3 |
| Balance, beginning of year | 14.1 | 9.8 |
| Balance, end of year | $18.9 | $14.1 |

(i) Prior period amounts were reclassified to reflect the New Zealand East Coast operations as discontinued operations.

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RAYONIER
SELECTED SUPPLEMENTAL FINANCIAL DATA (i)
DECEMBER 31, 2002 (unaudited)

(millions of dollars)

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2002 | September 30, 2002 | December 31, 2001 | December 31, 2002 | December 31, 2001 |
| Geographical Data (Non-U.S.) | | | | | |
| Sales | | | | | |
| New Zealand | $29.2 | $20.2 | $21.0 | $86.7 | $71.9 |
| Other | 7.9 | 8.5 | 9.7 | 41.2 | 39.9 |
| Total | $37.1 | $28.7 | $30.7 | $127.9 | $111.8 |
| Operating income (loss) | | | | | |
| New Zealand | $5.4 | $2.0 | $1.8 | $9.3 | $3.2 |
| Other | 1.1 | 0.1 | 1.3 | 0.2 | (0.3) |
| Total | $6.5 | $2.1 | $3.1 | $9.5 | $2.9 |
| Timber and Land | | | | | |
| Sales | | | | | |
| Northwest U.S. | $21.2 | $9.7 | $18.5 | $69.5 | $68.0 |
| Southeast U.S. | 31.9 | 48.1 | 28.2 | 148.6 | 180.5 |
| New Zealand | 10.5 | 6.3 | 8.0 | 29.0 | 24.0 |
| Total | $63.6 | $64.1 | $54.7 | $247.1 | $272.5 |
| Operating income (loss) | | | | | |
| Northwest U.S. | $14.5 | $4.8 | $13.0 | $47.7 | $48.5 |
| Southeast U.S. | 14.0 | 23.7 | 17.0 | 70.9 | 89.3 |
| New Zealand | 1.5 | 4.3 | 1.7 | 5.1 | 7.5 |
| Total | $30.0 | $32.8 | $31.7 | $123.7 | $145.3 |
| EBITDA | | | | | |
| Performance Fibers | $27.7 | $28.7 | $22.5 | $110.0 | $111.5 |
| Timber and Land | 51.7 | 56.8 | 45.3 | 209.6 | 236.8 |
| Wood Products and | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Trading | 0.3 | (0.9) | (1.2) | 4.4 | 1.1 |
| Corporate and other | (4.2) | (3.3) | (4.8) | (16.5) | (19.2) |
| Total | $75.5 | $81.3 | $61.8 | $307.5 | $330.2 |

(i) Prior period amounts were reclassified to reflect the New Zealand East Coast operations as discontinued operations.

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RAYONIER
SELECTED OPERATING INFORMATION (i)
DECEMBER 31, 2002 (unaudited)

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2002 | September 30, 2002 | December 31, 2001 | December 31, 2002 | December 31, 2001 |
| Performance Fibers | | | | | |
| Sales Volume | | | | | |
| Cellulose specialties, in thousands of metric tons | 116 | 114 | 100 | 435 | 423 |
| Absorbent materials, in thousands of metric tons | 60 | 75 | 68 | 271 | 284 |
| Production as a percent of capacity | 99.9% | 98.3% | 95.9% | 98.6% | 97.1% |
| Timber and Land | | | | | |
| Sales volume - Timber | | | | | |
| Northwest U.S., in millions of board feet | 66 | 36 | 66 | 252 | 251 |
| Southeast U.S., in thousands of short green tons | 1,284 | 1,165 | 1,025 | 4,881 | 5,395 |
| New Zealand, in thousands of metric tons (ii) | 273 | 243 | 242 | 805 | 793 |
| Timber sales volume - Intercompany | | | | | |
| Northwest U.S., in millions of board feet | 2 | 2 | 4 | 38 | 48 |
| Southeast U.S., in thousands of short green tons | 16 | 13 | 11 | 37 | 43 |
| New Zealand, in thousands of metric tons (ii) | 21 | 16 | 12 | 60 | 46 |
| Acres sold | 6,704 | 14,657 | 6,466 | 44,256 | 67,417 |
| Wood Products and Trading | | | | | |
| Lumber sales volume, in millions of | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| board feet | 73 | 87 | 80 | 325 | 279 |
| Medium-density fiberboard sales volume, in thousands of cubic meters | 46 | 40 | 48 | 163 | 161 |
| Log trading sales volume | | | | | |
| North America, in millions of board feet | 32 | 32 | 23 | 123 | 151 |
| New Zealand, in thousands of metric tons | 147 | 91 | 55 | 398 | 272 |
| Other, in thousands of cubic meters | 48 | 46 | 68 | 298 | 331 |

(i) Prior period amounts were reclassified to reflect the New Zealand East Coast operations as discontinued operations.
(ii)2001 volume restated from cubic meters to metric tons



RAYONIER
RECONCILIATION OF NON-GAAP MEASURES (i)
DECEMBER 31, 2002 (unaudited)

(millions of dollars)

| | Three Months Ended | | | Year Ended | |
|---|---|---|---|---|---|
| | December 31, 2002 | September 30, 2002 | December 31, 2001 | December 31, 2002 | December 31, 2001 |
| **EBITDA** | | | | | |
| Cash provided by operating activities of continuing operations | $48.1 | $72.8 | $15.3 | $249.8 | $227.9 |
| Income tax (benefit) expense | (1.8) | 6.3 | 1.4 | 14.9 | 23.8 |
| Interest expense | 16.8 | 14.3 | 16.2 | 61.4 | 69.1 |
| Balance sheet changes | 12.4 | (12.1) | 28.9 | (18.6) | 9.4 |
| EBITDA | $75.5 | $81.3 | $61.8 | $307.5 | $330.2 |
| **Free Cash Flow** | | | | | |
| Cash provided by operating activities of continuing operations | $48.1 | $72.8 | $15.3 | $249.8 | $227.9 |
| Custodial capital spending, net | (16.0) | (21.5) | (15.4) | (65.6) | (60.9) |
| Dividends at prior year level | (10.0) | (10.0) | (9.8) | (39.9) | (39.2) |
| Tax benefit on exercise of stock options | - | (0.1) | (1.5) | (2.5) | (1.5) |

| | | | | | |
|---|---|---|---|---|---|
| Free Cash Flow | $22.1 | $41.2 | $(11.4) | $141.8 | $126.3 |

| | | | | | |
|---|---|---|---|---|---|
| Net Debt | | | | | |
| Debt | $641.1 | $728.8 | $849.8 | $641.1 | $849.8 |
| Cash intended to pay-down debt | (14.0) | (35.1) | (7.3) | (14.0) | (7.3) |
| Net Debt | $627.1 | $693.7 | $842.5 | $627.1 | $842.5 |

(i) Prior period amounts were reclassified to reflect the New Zealand East Coast operations as discontinued operations.

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