UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the year ended December 31, 1998

OR

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

For the transition period from .... to ....

COMMISSION FILE NUMBER 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina

I.R.S. Employer Identification No. 13-2607329

1177 SUMMER STREET, STAMFORD, CT 06905-5529

(Principal Executive Office)

Telephone Number: (203) 348-7000

Securities registered pursuant to Section 12(b) of the Act, all of which are registered on the New York Stock Exchange:

Common Shares
7.5% Notes, due October 15, 2002
Medium-Term Notes, due 1999 - 2001

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES (x) NO ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. (X)

The aggregate market value of the Common Shares of the registrant held by non-affiliates of the Registrant on March 2, 1999, was approximately $1,107,000,000.

As of March 2, 1999, there were outstanding 27,821,413 Common Shares of the Registrant.

The registrant's definitive proxy statement filed or to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors at the annual meeting of the shareholders of the registrant scheduled to be held on May 21, 1999, is incorporated by reference in Part III of the Form 10-K.

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* Included pursuant to Instruction 3 to Item 401 (b) of Regulation S-K

INDEX TO FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENT SCHEDULES

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

PART I

ITEM 1. BUSINESS

GENERAL

Rayonier Inc. (Rayonier or the Company), including its subsidiaries, is a leading international forest products company primarily engaged in the trading, merchandising and manufacturing of logs, timber and wood products, and in the production and sale of high-value-added specialty pulps. Rayonier owns, leases, manages or controls approximately 1.5 million acres of timberland in the United States and New Zealand. In addition, the Company operates two pulp mills and two lumber manufacturing facilities in the United States and a medium-density fiberboard plant in New Zealand.

Rayonier traces its origins to the Rainier Pulp & Paper Company founded in Shelton, WA, in 1926. In 1937 it became "Rayonier Incorporated," a public company traded on the New York Stock Exchange (NYSE), until 1968, when it became a wholly owned subsidiary of ITT Corporation, now known as ITT Industries, Inc. (ITT). On February 28, 1994, Rayonier again became an independent public company when ITT distributed all of Rayonier's Common Shares to ITT stockholders. Rayonier shares are publicly traded on the NYSE under the symbol RYN.

Rayonier is a North Carolina corporation with its executive offices at 1177 Summer Street, Stamford, CT 06905-5529. Its telephone number is (203) 348-7000.

Rayonier operates in two major business segments, Timber and Wood Products and Specialty Pulp Products. The Timber and Wood Products segment includes two reportable business units under Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures About Segments of an Enterprise and Related Information," Forest Resources and Trading, and Wood Products. Chemical Cellulose, and Fluff and Specialty Paper Pulps, are product lines within the Specialty Pulp Products segment.

SALES

Rayonier's sales for the last three years were as follows in millions:

	Sales Revenue					
	1998	%	1997	%	1996	%
Timber and Wood Products:						
Forest Resources and Trading	$ 402	40	$ 420	38	$ 482	41
Wood Products	121	12	133	12	104	9
	523	52	553	50	586	50
Specialty Pulp Products:						
Chemical Cellulose	309	30	338	31	328	28
Fluff and Specialty Paper Pulps	179	18	182	16	186	16
	488	48	520	47	514	44
Dispositions	--	--	34	3	88	7
Intersegment eliminations	(2)	--	(3)	--	(10)	(1)
Total	$ 1,009	100	$ 1,104	100	$ 1,178	100

With customers in 60 countries, 42 percent of Rayonier's 1998 sales of $1,009 million were made to customers outside of the United States. For further information on sales, operating income and identifiable assets by segment, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 3 of the Notes to Consolidated Financial Statements - Segment and Geographical Information.

TIMBER AND WOOD PRODUCTS

FOREST RESOURCES AND TRADING

The Company manages timberlands, sells standing timber to third parties, purchases and harvests timber on timberlands owned by it and by third parties, sells logs, and purchases lumber and wood panel products for resale.

Rayonier manages approximately 1.5 million acres of timberlands as of December 31, 1998 as follows in thousands:

Region	Total Acres	%	Fee Owned Acres	Long-Term Leased Acres
Southeast U.S.	846	59	741	105
Northwest U.S.	379	26	379	-
New Zealand	222	15	6	216
Total	1,447	100	1,126	321

Southeastern U.S. timberlands are located primarily in Georgia and Florida. Their proximity to pulp, paper and lumber mills results in significant competition for the purchase of Rayonier's timber. Approximately 58 percent of the timber harvest is pulpwood, which is destined for pulp and paper mills, with the remaining 42 percent representing higher value timber sold primarily to plywood and lumber mills. Through advanced silvicultural practices, the Company has been able to increase the amount of timber volume per acre available for harvest from its southeastern timberlands by approximately 2 to 3 percent per year and expects this trend to continue.

Northwestern U.S. timberlands are located primarily on the Olympic Peninsula in Washington state, are all owned in fee and consist almost entirely of second-growth trees. These timberlands include softwood stands, of which approximately 71 percent is hemlock and 29 percent is Douglas fir, Western red cedar and spruce, and hardwood timber stands, consisting principally of alder and maple.

New Zealand forest assets consist primarily of Crown Forest Licenses providing the right to utilize approximately 219,000 acres of New Zealand plantation forests for a minimum period of 35 years. Approximately 90 percent of these timberlands consist of radiata pine, well suited for high quality lumber and panel products. The remaining 10 percent is Douglas fir and other species. Rayonier grows New Zealand timber for both domestic New Zealand uses and for export primarily to the Pacific Rim markets. In addition, Rayonier New Zealand manages timberlands for others, principally joint ventures in which Rayonier holds a minority interest.

Rayonier manages timberlands, endeavoring to scientifically develop forests to their economic peak for specific markets. The average rotation age for timber from the Southeastern U.S. (primarily Southern pine) is 25 years for timber sold to sawmills and 20 years for pulpwood destined for pulp and paper mills. The average rotation age for timber destined for domestic and export markets from the Northwestern U.S. (primarily hemlock and Douglas fir) is 45 to 50 years. The average rotation age for timber grown in New Zealand (primarily radiata pine) is 25 to 28 years.

In the United States, Rayonier manages almost all of its timberlands and sells standing timber directly through Rayonier Timberlands, L.P. (RTLP), a limited partnership. Until January 1998, Rayonier owned 74.7 percent of the Class A Limited Partnership Units of RTLP and the remaining 25.3 percent were publicly traded. Effective January 1998, Rayonier acquired the publicly held units of RTLP in accordance with the terms of the RTLP Partnership Agreement.

Rayonier is organized to regularly sell timber through auction processes predominately to third parties. By requiring the Company's other operating units to competitively bid for their timber and wood requirements, the Company believes it can maximize the true economic return on its investments. In 1998, approximately 90 percent of the Company's standing timber sales were made directly to third parties.

The Company manages its timberlands on a sustainable yield basis in conformity with best forest industry practices. A key to success is the extensive application of Rayonier's silvicultural expertise to species selection for plantations, soil preparation, thinning of timber stands, pruning of selected species, fertilization and careful timing of the harvest, all designed to maximize value, while responding to environmental needs. The following table sets forth timberland acres by region and by timber classification in thousands:

Region	Softwood Plantation	Hardwood Lands	Non-Forest	Total
Southeast U.S.	554	288	4	846
Northwest U.S.	323	18	38	379
New Zealand (1)	217	5	--	222
Total	1,094	311	42	1,447

(1) Excludes 43 thousand acres managed by Rayonier under joint ventures and approximately 65 thousand acres of native bush estate that is not harvestable.

Merchantable timber inventory is an estimate of the amount of standing timber at the earliest age that it could be harvested under varying economic conditions. Estimates are based on a continuing inventory system, which involves periodic statistical sampling of the timberlands, with adjustments made on the basis of growth estimates, harvest information and market conditions. The following table sets forth the estimated volumes of merchantable timber by location and type, as of December 31, 1998.

Region	Softwood	Hardwood	Total	Equivalent total, in thousands of cubic meters	%
Southeast U.S., in thousands of short green tons	9,352	6,857	16,209	11,090	27
Northwest U.S., in millions of board feet	2,104	217	2,321	14,034	34
New Zealand, in thousands of cubic meters	15,889	208	16,097	16,097	39
				41,221	100

Rayonier is also a leading exporter and trader of softwood logs, lumber and wood panel products. Rayonier purchases and harvests timber and purchases lumber and wood panel products for sale in domestic and export markets. In 1998, approximately 45 percent of New Zealand log sales volume was sourced from Company timberlands. In North America, approximately 7 percent of log sales volume was sourced directly from Rayonier's timberlands; however, logs were also purchased from independent local dealers who had, in some cases, purchased cutting rights to Company timberlands. Approximately 95 percent of log, lumber and wood panel product sales are made directly by Rayonier sales personnel. In certain of the Company's export locations, sales are made through independent sales agents.

WOOD PRODUCTS

The Company manufactures wood products at two lumber mills in the Southeast U.S. and a medium-density fiberboard facility in New Zealand.

Rayonier's lumber mills located at Baxley and Swainsboro, GA, convert Southern pine timber into dimension and specialty lumber products for residential construction and industrial uses. The two mills have a combined annual capacity of approximately 265 million board feet of lumber, while also producing approximately 537,000 tons of wood chips for pulping. The mills sell their lumber output primarily in southeastern United States and Caribbean markets. Lumber is sold primarily by Rayonier sales personnel, although sales to certain export locations are made through independent sales agents. Substantially all of the wood chip production is sold (at market prices) to Rayonier's Jesup, GA, pulp facility accounting for approximately 18 percent of Jesup's 1998 total wood consumption. In July 1998, fire damaged a third lumber manufacturing facility, with annual capacity of 85 million board feet, at Plummer, ID. Rayonier has permanently closed the Plummer mill and plans to sell the remaining assets.

During 1997, the Company completed construction and, in the fourth quarter, began operations at a medium-density-fiberboard (MDF) facility in New Zealand with an annual capacity of 140,000 cubic meters and utilities infrastructure capacity for an additional 140,000 cubic meters. The Company's MDF is marketed by Rayonier personnel, independent sales agents and a domestic distributor.

SPECIALTY PULP PRODUCTS

Rayonier is a leading specialty pulp manufacturer. The Company owns and operates pulp mills at Jesup, GA, and Fernandina Beach, FL, with a combined annual capacity of approximately 700,000 metric tons. These facilities are able to manufacture more than 25 different grades of pulp to meet customers' needs. The Jesup facility produces approximately 550,000 metric tons of wood pulp, or 79 percent of Rayonier's total capacity. The Fernandina Beach facility produces approximately 150,000 metric tons of wood pulp, or 21 percent of Rayonier's total capacity.

Rayonier concentrates on the production of specialty pulps to customers' specifications, sold to industrial companies producing a wide variety of products. Over half of Rayonier's pulp sales are to export customers, primarily in Europe, Asia and Latin America. Over 90 percent of specialty pulp sales are made directly by Rayonier sales personnel. In certain of the Company's export locations, sales are made through independent sales agents.

CHEMICAL CELLULOSE

Rayonier is one of the world's leading producers of chemical cellulose, also called dissolving pulp, which is a highly purified form of pulp. Chemical cellulose is used in a wide variety of products such as textile fibers, rigid packaging, photographic film, impact-resistant plastics, high-tenacity rayon yarn for tires and industrial hoses, pharmaceuticals, cosmetics, detergents, sausage casings, food products, thickeners for oil well drilling muds, cigarette filters, lacquers, paints, printing inks and explosives. Within the chemical cellulose industry, Rayonier concentrates on the most highly valued, technologically demanding end uses, such as cellulose acetate and high-purity cellulose ethers, of which it is a leading supplier.

FLUFF AND SPECIALTY PAPER PULPS

Rayonier is a leading supplier of fluff pulp, 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.

Rayonier is also a major producer of specialty paper pulps and produces only a small volume of regular paper pulp. Customers use Rayonier's specialty paper pulps to manufacture paper for decorative laminates for counter tops, air and oil filters, shoe innersoles, battery separators, circuit boards and filter media for the food industry. Paper pulp, representing approximately 2 percent of total Company pulp sales, is used in the manufacture of bond, book and printing paper.

PULP PRICING

Pulp prices are cyclical. Since Rayonier is a non-integrated specialty pulp producer for non-papermaking end uses, pricing of its high-value product mix tends to lag (on both the upturn and downturn) commodity paper pulp prices.

DISPOSITIONS AND DISCONTINUED OPERATIONS

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

See Note 11 of the Notes to Consolidated Financial Statements - Dispositions and Discontinued Operations.

FOREIGN SALES AND OPERATIONS

Rayonier's sales for the last three years by geographical destination market are as follows in millions:

	Sales by Destination Markets					
	1998	%	1997	%	1996	%
United States	$ 587	58	$ 568	51	$ 527	45
Europe	121	12	127	12	135	11
Japan	107	11	173	16	234	20
South Korea	17	2	52	5	49	4
China	36	4	36	3	54	5
Other Asia	56	5	66	6	89	7
Latin America	54	5	59	5	57	5
Canada	21	2	16	1	20	2
All other	10	1	7	1	13	1
Total	$1,009	100	$1,104	100	$1,178	100

Overseas assets, primarily in New Zealand, were approximately 22 percent of total assets at the end of 1998 and Rayonier's sales from non-U.S. operations were approximately 8 percent of total sales.

See Note 3 of the Notes to Consolidated Financial Statements - Segment and Geographical Information.

PATENTS

Rayonier has a large number of patents, which relate primarily to its products and processes. It also has pending a number of patent applications. Although Rayonier's patents are of significant importance to the operation of each of its individual businesses, Rayonier does not consider any of its patents or group of patents relating to a particular product or process to be of material importance from the standpoint of Rayonier overall.

COMPETITION AND CUSTOMERS

The Company's U.S. timberlands are located in two major timber growing regions (the Southeast and the Northwest), where timber markets are fragmented and very competitive. In the Northwest U.S., John Hancock Mutual Life Insurance Co. and Washington state (Department of Natural Resources) are significant competitors. In both the Northwest U.S. and Southeast U.S., smaller forest products companies and private landowners compete with the Company. Price is the principal method of competition.

Export log markets are highly competitive, with logs available from several countries and numerous suppliers. In New Zealand, major competitors include Carter Holt Harvey and Fletcher Challenge. In North America, Weyerhaeuser, International Paper and Willamette are principal competitors. Price and customer relationships are important methods of competition.

Rayonier's lumber and MDF wood products compete with the products of numerous companies, some of which are larger and have greater resources than Rayonier. Both lumber and MDF compete with alternative construction materials. The MDF facility is experiencing significant operating losses ($16 million in 1998) mainly associated with weak demand from Asian markets for forest products and worldwide overcapacity of MDF production. Losses are expected to continue into the near future, before an anticipated market recovery emerges, which is highly dependent upon the recovery of Asian economies. In most of Rayonier's markets, competition is primarily through price, quality, customer relationships and technical service.

Specialty pulp products are marketed worldwide against strong competition from domestic and foreign producers. Rayonier's major competitors include International Paper, Weyerhaeuser, Georgia-Pacific, Buckeye Technologies and Stora Kopparberg. However, several foreign, low-cost manufacturers are currently attempting to produce high-grade acetate pulps. Supply of these pulp grades may increase in the future, in comparison to demand growth that has been fairly modest. Pressure on chemical cellulose margins at both Jesup and Fernandina will most probably intensify. On the other hand, the Company is developing new, and improving existing, products and processes that could add additional value to the specialty pulp business. In addition to pricing, product performance and technical service are principal methods of competition.

ENVIRONMENTAL MATTERS

See "Environmental Regulation" in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 16 of the Notes to Consolidated Financial Statements - Contingencies.

RAW MATERIALS

Regional timber availability continues to be restricted by legislation, litigation and pressure from various preservationist groups and is also subject to cyclical swings in lumber and pulp and paper markets. While the Forest Resources and Trading business unit has benefited from a significant increase in timber prices over the last decade, this increase adversely impacted fiber costs at Rayonier's Specialty Pulp Products and Wood Products manufacturing facilities in the Southeast U.S.

Rayonier has pursued, and is continuing to pursue, reductions in usage and costs of key raw materials, supplies and contract services at its pulp and lumber mills. Management foresees no significant constraints from pricing or availability of its key raw materials.

RESEARCH AND DEVELOPMENT

Rayonier believes it maintains one of the preeminent specialty pulp research facilities and staff in the forest products industry. Research and development efforts are directed primarily at the development of new and improved pulp grades, improved manufacturing efficiency, reduction of energy needs, product quality and development of improved environmental controls. The research center is adjacent to the pulp mill in Jesup, GA.

Research activities related to timberland operations include genetic tree improvement programs as well as applied silviculture programs to identify management practices that improve returns from timberland assets.

Research and development expenditures were $11 million, $10 million, and $11 million in 1998, 1997 and 1996, respectively.

EMPLOYEE RELATIONS

Rayonier currently employs approximately 2,300 people. Of this number, approximately 2,100 are employees in the United States, of whom 46 percent are covered by labor contracts. Most hourly employees are represented by one of several labor unions. Labor relations are maintained in a normal and satisfactory manner.

Jesup's labor agreements, covering approximately 700 employees, expire in June 2002. Fernandina's labor contracts, covering approximately 300 employees, expire in May 2001.

Rayonier has in effect various benefit plans for its employees and retirees, providing certain group medical, dental and life insurance coverage, pension and other benefits. The cost of the plans is borne primarily by Rayonier.

ITEM 2. PROPERTIES

Rayonier owns, leases or controls approximately 1.2 million acres of timberlands in the United States. Rayonier manages these properties and sells timber to other Company operating units, as well as unaffiliated parties. Rayonier's New Zealand subsidiary owns or manages the forest assets on approximately 222,000 acres of plantation forests in New Zealand. Rayonier and its wholly owned subsidiaries own or lease various other properties used in their operations, which include two pulp mills, three lumber manufacturing facilities (including a mill in Plummer, ID which was damaged by fire in July 1998 - see page 3), an MDF plant, a research facility and Rayonier's corporate headquarters. These facilities (except for the corporate headquarters in Stamford, CT) are located in the northwestern and southeastern portions of the United States and in New Zealand.

ITEM 3. LEGAL PROCEEDINGS

Rayonier is one of two defendants in an action by Powell-Duffryn Terminals instituted in the U.S. District Court for the Southern District of Georgia on April 10, 1997, seeking indemnity for $57 million in damages incurred as the result of a fire and explosion at a marine terminal and storage facility where crude sulfate turpentine produced by Rayonier and others was stored. Plaintiff has sued to recover sums paid to third-party claimants, expenses incurred to remediate the property and adjoining lands and other damages. On April 20, 1998, the U.S. District Court for the Southern District of Georgia granted summary judgment in favor of Rayonier, and this decision was affirmed by the U.S. Court of Appeals for the Eleventh Circuit on March 10, 1999.

Rayonier is also engaged in environmental proceedings that are discussed more fully in Note 16 of the Notes to Consolidated Financial Statements - Contingencies (Legal Proceedings).

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders of Rayonier during the fourth quarter of 1998.

EXECUTIVE OFFICERS OF RAYONIER

W. LEE NUTTER, 55, Chairman, President and Chief Executive Officer, Rayonier - He joined Rayonier in 1967 in the Northwest Forest Operations and was named Vice President, Timber and Wood in 1984, Vice President, Forest Products in 1985, Senior Vice President, Operations, in 1986 and Executive Vice President in 1987. He was elected President and Chief Operating Officer and a director of Rayonier on July 19, 1996 and was elected to his present position effective January 1, 1999. Mr. Nutter is a member of the Board of Governors of the National Council for Air and Stream Improvement. He was graduated from the University of Washington and the Harvard University Graduate School of Business Administration Advanced Management Program.

WILLIAM S. BERRY, 57, Executive Vice President, Forest Resources and Wood Products - He has held his current position since August 1, 1998. He was elected Executive Vice President, Forest Resources and Corporate Development in October 1996. He was Senior Vice President, Forest Resources and Corporate Development, of Rayonier from January 1994 until October 1996, Senior Vice President, Land and Forest Resources, from January 1986 to January 1994 and Vice President and Director of Forest Products Management from October 1981 to January 1986. Mr. Berry joined Rayonier in 1980 as Director of Wood Products Management. He serves on the External Advisory Board of the Warnell School of Forest Resources, University of Georgia. He holds a B.S. in Forestry from the University of California at Berkeley and an M.S. in Forestry from the University of Michigan.

GERALD J. POLLACK, 57, Senior Vice President and Chief Financial Officer - He was elected Senior Vice President and Chief Financial Officer of Rayonier in May 1992. From July 1986 to May 1992, he was Vice President and Chief Financial Officer. Mr. Pollack joined Rayonier in June 1982 as Vice President and Controller. He is a member of the New York Advisory Board of The Allendale Insurance Co., the financial management committee of AF&PA, and the Financial Executive Institute. Mr. Pollack has a B.S. degree in Physics from Rensselaer Polytechnic Institute and an MBA in Accounting and Finance from the Amos Tuck School at Dartmouth.

JOHN P. O'GRADY, 53, Senior Vice President, Administration - He was elected Senior Vice President, Human Resources, of Rayonier in January 1994 and Senior Vice President, Administration, effective January 1996. He was Vice President, Administration, of Rayonier from July 1991 to January 1994. From December 1975 to July 1991, he held a number of human resources positions at ITT Corporation and its subsidiaries. Mr. O'Grady serves on the American Forest & Paper Association's employee and labor relations committee, is on the business advisory board of the University of Oklahoma School of Business and is a Management Trustee for the Paper, Allied-Industrial, Chemical & Energy Workers International Union Health and Welfare Trust. From 1994 to 1997, he served on the board of advisors of the Business and Industry Council of the College of New Jersey (formerly Trenton State College). He holds a B.S. degree in Labor Economics from the University of Akron, an M.S. degree in Industrial Relations from Rutgers University and a Ph.D. in Management from California Western University.

WILLIAM A. KINDLER, 56, Senior Vice President, Specialty Pulp - He joined Rayonier in August 1996, was elected Vice President. Specialty Pulp, in October 1996 and was elected to his present position effective March 1, 1998. Prior to coming to Rayonier, Mr. Kindler was with James River Corporation for 26 years where he held a number of senior management positions, most recently as Vice President, General Manager, Printing Papers (November 1988 until March 1994) and as Vice President, Product Supply, Consumer Products (March 1994 until August 1996). He holds a B.A. in Chemistry from Western Washington University and an M.S. and Ph.D. in Pulp and Paper Technology from the Institute of Paper Chemistry.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The table below reflects the range of market prices of Rayonier Common Shares as reported in the consolidated transaction reporting system of the New York Stock Exchange, the only exchange on which this security is listed, under the trading symbol RYN.

RAYONIER COMMON SHARES - MARKET PRICES, VOLUME AND DIVIDENDS (UNAUDITED)

	High	Low	Composite Volume	Dividend
1998				
Fourth Quarter	$46.25	$ 37.25	3,789,600	$.31
Third Quarter	48.00	36.63	3,890,600	.31
Second Quarter	52.50	43.13	5,635,000	.31
First Quarter	48.50	40.25	5,247,400	.31
1997				
Fourth Quarter	$51.13	$ 40.25	3,655,100	$.30
Third Quarter	53.00	42.00	3,657,700	.30
Second Quarter	44.38	36.88	3,391,800	.30
First Quarter	39.25	35.25	3,611,800	.30

On February 19, 1999, Rayonier announced a first quarter dividend of 31 cents per share payable March 31, 1999 to shareholders of record March 10, 1999.

There were approximately 22,915 shareholders of record of Rayonier Common Shares on February 26, 1999.

ITEM 6. SELECTED FINANCIAL DATA

The following summary of historical financial data for each of the five years ended December 31, 1998 is derived from the consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements (dollar amounts in millions, except per share data).

	Year Ended December 31				
	1998	1997	1996	1995	1994
OPERATIONS:					
Sales	$ 1,009	$ 1,104	$ 1,178	$1,260	$1,069
Operating income before provision for dispositions	124	166	159	234	169
Provision for dispositions	-	-	(125) (1)	-	-
Operating income	124	166	34	234	169
Income (loss) from continuing operations	64	87	(-)	142	70
Provision for discontinued operations	-	-	(98) (2)	-	-
Net income (loss)	64	87	(98)	142	70
PER COMMON SHARE:					
Income (loss) from continuing operations	$ 2.22	$ 2.97	$ (-)	$ 4.75	$ 2.36
Provision for discontinued operations	-	-	(3.28)	-	-
Net income (loss) - Diluted	2.22	2.97	(3.28)	4.75	2.36
- Basic	2.26	3.03	(3.28)	4.81	2.37
Dividends paid	1.24	1.20	1.16	1.00	.72
Book value	23.01	22.37	21.29	25.95	22.15
FINANCIAL CONDITION:					
Total assets	$ 1,601	$ 1,596	$ 1,598	$1,648	$1,524
Total debt	490	426	433	450	483
Book value	639	633	623	769	655
CASH FLOW:					
Cash flow from operating activities	$ 157	$ 253	$ 236	$ 213	$ 190
Custodial capital spending (3)	58	72	83	72	67
Total capital expenditures	95	137	187	143	101
Depreciation, depletion and amortization	101	99	97	96	90
EBITDA (4)	226	237	236	303	229
EBIT (5)	125	138	139	207	139
Free cash flow (6)	66	122	119	107	90
Dividends paid	35	35	34	30	21
PERFORMANCE RATIOS (%):					
Operating income to sales (7)	12	15	13	19	16
Return on equity (8)	10	14	-	20	11
Return on assets (8)	4	5	-	9	5
Debt to capital	43	40	41	37	43
OTHER:					
Number of employees	2,300	2,500	2,700	2,900	2,700
Timberlands - in thousands of acres	1,447	1,452	1,462	1,473	1,501

SELECTED OPERATING DATA (UNAUDITED):

	Year Ended December 31				
	1998	1997	1996	1995	1994
Timber and Wood Products					
Log trading volume					
North America - in millions of board feet	173	224	284	351	306
New Zealand - in thousands of cubic meters	851	1,113	1,414	1,682	1,623
Other - in thousands of cubic meters	206	277	97	103	54
Standing timber sales volume					
Northwest U.S. - in millions of board feet	212	190	193	175	194
Southeast U.S. - in thousands of short green tons	2,360(9)	2,421	2,281	2,218	2,184
New Zealand - in thousands of cubic meters(10)	1,003	1,111	1,097	--	--
Lumber sales volume - in millions of board feet(11)	310	325	280	213	197
Medium-density fiberboard sales volume - in thousands of cubic meters	91	16	--	--	--
Intercompany sales volume					
Logs - in millions of board feet	--	1	12	22	13
Northwest U.S. timber - in millions of board feet	12	14	23	32	36
Southeast U.S. timber - in thousands of short green tons	70	92	158	292	199
New Zealand timber - in thousands of cubic meters(10)	385	589	840	--	--
Specialty Pulp Products					
Pulp sales volume					
Chemical cellulose - in thousands of metric tons(12)	344	381	349	342	311
Fluff and specialty paper pulp - in thousands of metric tons(13)	349	344	332	308	350
Production as a percent of capacity	97%	100%	101%	99%	96%

SELECTED SUPPLEMENTAL FINANCIAL DATA

	1998	1997	1996	1995	1994
Financial Results Excluding Impact of Special Items(14)					
Sales	$ 1,015	$ 1,104	$ 1,178	$ 1,260	$ 1,069
Operating income	134	166	159	234	169
Net income	70	82	79	118	70
Net income per diluted Common Share	2.44	2.78	2.63	3.95	2.36
EBITDA(4)	235	229	236	303	229
Return on equity(%)	11	13	10	17	11
Geographical Data(Non-U.S.)					
Sales					
New Zealand	$ 64	$ 90	$ 96	$ 106	$ 98
Other	17	22	23	28	26
Total	$ 81	$ 112	$ 119	$ 134	$ 124
Operating Income					
New Zealand	$ (14)	$ 8	$ 5	$ 13	$ 12
Other	(3)	(5)	(3)	(1)	(3)
Total	$ (17)	$ 3	$ 2	$ 12	$ 9

	Year Ended December 31				
	1998	1997	1996	1995	1994
Forest Resources					
Sales					
Northwest U.S.	$ 81	$ 81	$ 92	$ 96	$ 115
Southeast U.S.	77(9)	70	67	72	58
New Zealand(10)	24	33	37	--	--
Total	$ 182	$ 184	$ 196	$ 168	$ 173
Operating Income					
Northwest U.S.	$ 59	$ 58	$ 67	$ 72	$ 94
Southeast U.S.	54	51	48	54	41
New Zealand(10)	8	8	15	--	--
Total	$ 121	$ 117	$ 130	$ 126	$ 135
EBITDA per share					
Northwest U.S.	$ 2.22	$ 2.03	$ 2.29	$ 2.46	$ 3.22
Southeast U.S.	2.25	2.03	1.87	2.08	1.64
New Zealand(10)	0.64	0.69	0.85	--	--
Total	$ 5.11	$ 4.75	$ 5.01	$ 4.54	$ 4.86

(1) 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

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

(3) 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.

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

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

(6) 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.

(7) Based on operating income before provision for dispositions

(8) Based on income (loss) from continuing operations, including charges for pulp mill disposition

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

(10) Forest Resources results for New Zealand began in 1996 when Rayonier reorganized its New Zealand operations into separate log trading and timberlands management organizations. Standing timber harvested by Rayonier and sold as logs was 1,133 in 1995 and 1,155 in 1994.

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

(12) Excludes sales by the Port Angeles pulp mill, which ceased operations on February 28, 1997, of 35, 94, 98 and 117 for the years 1997-1994, respectively

(13) Excludes sales by the Port Angeles pulp mill of 7, 18, 36 and 12 for the years 1997-1994, respectively

(14) Special items include the Southeast U.S. forest fires in 1998, the gains from sale of timber assets in New Zealand in 1997 and 1995 and the charges discussed in (1) and (2) above in 1996.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SEGMENT INFORMATION

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

The amounts and relative contributions to sales and operating income attributable to each of Rayonier's reportable business units, for each of the three years ended December 31, 1998 were as follows in millions:

	Year Ended December 31		
SALES	1998	1997	1996
Timber and Wood Products			
Forest Resources and Trading	$ 402	$ 420	$ 482
Wood Products	121	133	104
Total Timber and Wood Products	523	553	586
Specialty Pulp Products:			
Chemical Cellulose	309	338	328
Fluff and Specialty Paper Pulps	179	182	186
Total Specialty Pulp Products	488	520	514
Intersegment eliminations	(2)	(3)	(10)
Total before dispositions	1,009	1070	1090
Dispositions	--	34	88
Total sales	$ 1,009	$ 1,104	$ 1,178
OPERATING INCOME (LOSS)			
Timber and Wood Products			
Forest Resources and Trading	$ 118	$ 118	$ 124
Wood Products	(16)	6	3
Total Timber and Wood Products	102	124	127
Specialty Pulp Products	34	56	57
Corporate and other	(12)	(17)	(16)
Total before dispositions	124	163	168
Dispositions	--	3	(134)
Total operating income	$ 124	$ 166	$ 34

BUSINESS CONDITIONS

Rayonier's net income in 1998 was $64 million, or $2.22 per share compared to $87 million, or $2.97 per share in 1997. Excluding special items in both years (please refer to pages 11 and 12) 1998 net income was $70 million, or $2.44 per share, compared to $82 million, or $2.78 per share. Special items in 1998 primarily refer to reduced realizations on fire-damaged timber as a result of forest fires in the Southeast U.S., and in 1997 refer to a gain on selling a 75 percent joint venture interest in a small portion of the Company's New Zealand timber base.

In 1998, 42 percent of Rayonier sales were made to customers outside the U.S., compared to 49 percent in 1997, reflecting weaker offshore markets and stronger domestic U.S. housing-related activity. During the last half of 1997 and throughout 1998, weakness in Asian and Latin American markets placed additional price pressure on worldwide pulp markets, as well as timber and log markets in New Zealand and the Northwest U.S. Partially offsetting these effects were lower costs for many of the Company's raw materials as well as energy and freight. The Company also redirected its marketing efforts toward stronger economies in North America and Europe.

In Timber and Wood Products, the Forest Resources and Trading business unit was adversely affected by weak Asian markets and a strong U.S. dollar, although domestic U.S. demand for timber was strong, reflecting a favorable housing market. The Wood Products business unit performance included $16 million in operating losses at the Company's New Zealand MDF plant which faced, and continues to face, weak markets and industry overcapacity.

Specialty Pulp segment performance in 1998 was constrained by high customer inventories and slow end-use markets. Prices for fluff pulps continued to decline from year earlier levels, and by year-end, chemical cellulose prices, which tend to lag commodity grades, came under similar pressure.

In January 1998, the Company acquired the outstanding publicly traded minority interest in Rayonier Timberlands, L.P. (RTLP or the Partnership), a master limited partnership that owns and operates most of its U.S. timberlands business. As a result of the acquisition, Rayonier recognized approximately 42 cents per share of incremental net income in 1998 for timber harvested from the Partnership's timberlands.

Rayonier's capital spending in 1998 and 1997 was focused on cost reduction, quality and productivity improvements in Specialty Pulp Products and Wood Products, investment in timberlands and development of New Zealand operations. These investments are expected to help moderate the cyclical effects of the pulp market cycle, improve bottom-of-the-cycle earnings and add value to existing assets. See Liquidity and Capital Resources.

Soft Asian markets and intense global competition in specialty pulps continue to affect Company results. Although prices for the Company's fluff pulps appear to have bottomed, chemical cellulose prices declined in the first quarter of 1999. With timber and wood markets mixed and lower chemical cellulose prices, the Company anticipates that it will be difficult in the first quarter of 1999 to maintain fourth quarter 1998 reported earnings.

RESULTS OF OPERATIONS, 1998 VS. 1997

Sales and Operating Income

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

Timber and Wood Products

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

Forest Resources and Trading

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

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

Wood Products

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

Specialty Pulp Products

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

Corporate and Other

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

Dispositions

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

Other Income/Expense

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

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

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

Acquisition of Minority Interest in RTLP

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

Income Taxes

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

RESULTS OF OPERATIONS, 1997 VS. 1996

Sales and Operating Income

Sales declined 6 percent to $1.1 billion in 1997, reflecting the closure of the Port Angeles pulp mill on February 28, 1997, lower North American log trading volume and export prices, lower New Zealand log volume and lower Northwest U.S. timber selling prices, partially offset by higher lumber selling prices and volume. Operating income for the year was $166 million, rising from $34 million in 1996, due to the absence of the disposition charge of $125 million and operating losses associated with the Port Angeles pulp mill, and higher lumber selling prices and volume.

Timber and Wood Products

Sales and operating income declined from prior year by $33 million and $3 million, respectively.

Forest Resources and Trading

Forest Resources and Trading sales decreased 13 percent to $420 million in 1997 while operating income declined $6 million to $118 million in 1997. Standing timber sales and operating income decreased from 1996 primarily due to weaker Northwest U.S. timber prices and New Zealand timber volume. Southeast U.S. timber volume improved due to a strong pulpwood market. Log trading sales declined in 1997 primarily due to weakness in Asian wood markets, resulting in lower log prices and volume.

Wood Products

Wood Products sales increased 28 percent to $133 million in 1997 due to stronger U.S. lumber sales volume and prices and start-up of the medium-density fiberboard (MDF) business in New Zealand. Wood Products operating income of $6 million improved $3 million from 1996 due to higher lumber prices and volumes and lower conversion costs. The significant improvements in lumber were partially offset by operating losses incurred in connection with the start-up of the New Zealand MDF business.

Specialty Pulp Products

Sales of $520 million for the Company's Jesup and Fernandina pulp mills were slightly above the prior year level with lower selling prices more than offset by higher volume. Operating income of $56 million was $1 million below 1996 as lower average selling prices for both chemical cellulose and fluff pulp were mostly offset by higher pulp shipments and lower manufacturing costs. Pulp production costs declined to $612 per ton in 1997 from $639 in 1996.

Dispositions

Dispositions results include the Company's Port Angeles pulp mill, permanently closed in February 1997, with product sales arising from inventory. Improved results over 1996 primarily reflect the absence of operating losses following the mill's closure. Sales were $34 million in 1997 compared to $88 million in 1996, and operating income in 1997 was $3 million compared to an operating loss in 1996 of $10 million, excluding closure charges.

During the fourth quarter of 1996, Rayonier recorded a disposition charge of $79 million after-tax, or $2.63 per share, primarily related to the planned closure of the Port Angeles pulp mill on February 28, 1997. The pretax charge of $125 million included a $77 million loss on disposal of mill assets with a net book value of $84 million, accruals of $40 million for severance, relocation, demolition, environmental cleanup and other items associated with the disposition, and $8 million for loss on disposal of other non-strategic assets. The liquidation of working capital and tax benefits associated with the closure offset cash closure costs. Dismantling began in 1997 and is expected to be completed in 1999.

Other Income/Expense

Interest expense for 1997 decreased $2 million to $26 million reflecting lower average debt levels primarily due to reduced investment in working capital. Capitalized interest relating to the Company's New Zealand MDF facility was $4.6 million in 1997 compared to $2.3 million in 1996.

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 in 1997, as compared to a mark-to-market gain of $6 million in 1996. In contrast, the 1997 movement of the New Zealand/U.S. dollar exchange rate from 0.71 on January 1, 1997, to 0.58 on December 31, 1997, had a favorable effect of $4 million on the Company's New Zealand operating income.

From time to time, the Company opportunistically sells non-strategic assets to maximize value from its asset mix. During the fourth quarter of 1997, the Company sold a 75 percent interest in two New Zealand forests (12,100 acres) to a timber investment fund and purchased a 25 percent stake in two other New Zealand forests (3,700 acres) from the same fund in a transaction that resulted in net cash proceeds to the Company of $11.7 million. As a result, a pretax gain of $8.4 million, $5.6 million after-tax, or 19 cents per share, was realized. Rayonier has management and marketing responsibilities for the joint venture, which involves 15,800 acres of timber on New Zealand's North Island.

Minority interest in the earnings of Rayonier Timberlands, L.P. decreased $2 million to $26 million in 1997 due to lower Partnership earnings, primarily reflecting lower Northwest U.S. timber prices.

Income Taxes

The effective tax rate for 1997 was 28 percent compared to 29 percent in 1996, excluding the tax benefits for two significant non-cash charges (see Dispositions and Discontinued Operations), which were recorded at statutory rates. These effective tax rates are below the U.S. statutory rates, primarily resulting from the lower rates in effect for foreign subsidiaries. Additionally, 1997 reflects both research and investment tax credits and foreign exchange translation gains while the prior year includes certain tax benefits recognized in 1996 that pertained to prior years.

Discontinued Operations

In the fourth quarter of 1996, the Company adopted Statement of Position 96-1 "Environmental Remediation Liabilities" issued by the American Institute of Certified Public Accountants. Adoption resulted in a cash neutral pretax charge of $155 million ($98 million after-tax, or $3.28 per share). The Company's annual cash flow was not impacted.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities in 1998 of $157 million, or approximately $5 per share, decreased $96 million from 1997 as a result of lower net income, non-recurring 1997 asset sales and liquidation of Port Angeles working capital in 1997. This cash flow financed capital expenditures of $95 million, dividends of $35 million and the repurchase of Common Shares of $27 million.

Cash from operating activities in 1997 increased $17 million over the 1996 level to $253 million. Cash from operating activities helped finance capital expenditures of $137 million, dividends of $35 million and the repurchase of Common Shares of $48 million.

The Company's cash tax payments were reduced in 1996 and 1997 as a result of transactions undertaken by the Company to control environmental remediation and monitoring costs, and certain benefits relating to the Port Angeles pulp mill closure.

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 1996, 437,800 shares were repurchased at an average cost of $37.74 for $17 million. In February 1997, the Company announced an increase in the share repurchase program. The Company repurchased 1,123,500 shares in 1997 at an average cost of $43.08 for $48 million.

In July 1998, the Company's Board of Directors increased the authorized number of common shares to be repurchased by 200,000 and in October 1998, the Board authorized the repurchase of an additional one million shares through December 31, 2000. These share repurchases were authorized in addition to the 1.5 percent of outstanding shares normally repurchased each year to offset the dilutive effect of incentive stock programs on earnings per share. The Company repurchased 628,479 shares in 1998 at an average cost of $42.24 for a total of $27 million.

In 1998, EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization) was $226 million, or $7.90 per share, down $11 million from 1997. In 1997, EBITDA was $237 million, or $8.07 per share, compared to $236 million, or $7.86 per share, in 1996. Free cash flow (defined as income from continuing operations plus depreciation, depletion and amortization, deferred income taxes and changes in working capital, less custodial capital spending and prior-year dividend levels) decreased $56 million to $66 million in 1998 primarily as a result of working capital changes and lower net income.

Debt increased $64 million in 1998 to $490 million, primarily due to the acquisition of the minority interest in RTLP for $66 million. The year-end debt-to-capital ratio of 43 percent is 3 percentage points above prior year-end. At December 31, 1996, debt was $433 million, or 41 percent of capital. The percentage of debt with fixed interest rates was 44 percent as of December 31, 1998, and 50 percent as of December 31, 1997 and 1996.

The most restrictive long-term debt covenant in effect at December 31, 1998, provided that the ratio of total debt to EBITDA not exceed 4 to 1. As of December 31, 1998, the ratio was 2.3 to 1. In addition, $389 million of retained earnings was unrestricted as to the payment of dividends.

Capital spending of $95 million in 1998 included $8 million to upgrade control systems at the Jesup pulp mill complex and $3 million to upgrade the Company's Swainsboro sawmill. This lumber mill modernization project will continue into 1999 and includes drying and finishing facilities as well as enhanced process control technology. Rayonier expects to invest $180-$220 million in capital projects during the two-year period 1999-2000. Capital projects include profit improvement, custodial capital, sawmill modernization, 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 $109 million of outstanding commercial paper. As of December 31, 1998, Rayonier had $191 million available under its revolving credit facilities. In addition, the Company has on file with the Securities and Exchange Commission shelf registration statements to offer $200 million of new public debt securities. The Company believes that internally generated funds, combined with available external financing, will enable Rayonier to fund capital expenditures, share repurchases, working capital and other liquidity needs for the foreseeable future.

ENVIRONMENTAL REGULATION

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal that, in the opinion of management, will require substantial expenditures over the next 10 years. During 1998, 1997 and 1996, Rayonier spent approximately $3 million, $4 million and $6 million, respectively, for capital projects related to environmental compliance for ongoing operations. During the two-year period 1999-2000, Rayonier expects to spend approximately $30 million on such capital projects.

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

Over the past several years, the harvest of timber from private lands in the state of Washington has been restricted as a result of the listing of the northern spotted owl and the marbled murrelet as threatened species under the Endangered Species Act. These restrictions have caused Rayonier to restructure and reschedule some of its harvest plans. In addition, at least one run of salmon has been listed as threatened and several additional runs of salmon are expected to be listed as threatened or endangered in 1999, and rules implemented to protect them. Rayonier and other members of the forest products industry in Washington state are currently engaged in negotiations with regulatory agencies to obtain a predictable plan to protect fish and water. 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.

Dispositions and discontinued operations include Rayonier's Port Angeles, WA, pulp mill which was closed on February 28, 1997; its interest in the Grays Harbor, WA, pulp and paper complex which was closed in 1992; its wholly owned subsidiary, Southern Wood Piedmont Company, which ceased operations in 1986; Rayonier's Eastern Research Division, which ceased operations in 1981; and other miscellaneous assets held for disposition. Rayonier currently estimates that expenditures during 1999-2000 for environmental remediation and monitoring costs for all dispositions and discontinued operations will total approximately $27 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, 1998, these reserves totaled approximately $181 million. The amount of actual future environmental costs is dependent on the outcome of negotiations with federal and state agencies and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Based on information currently available, the Company does not believe that any future changes in estimates, if necessary, would materially affect its consolidated financial condition or results of operations.

YEAR 2000 COMPLIANCE

Rayonier began its company-wide Year 2000 Project in 1996 and expects all phases to be completed by the end of the third quarter of 1999. The Project is designed to identify Year 2000 problems and take corrective action covering business and process control systems, networking communications, personal computer applications, embedded microprocessors and third-party supplier and customer risks. The Company has engaged outside consultants to advise on, assist in and monitor compliance. The project team reports directly to the Company's senior executive officers and regularly provides program updates to the Audit Committee of the Board of Directors.

The estimated total amount expended on the Year 2000 Project through the end of 1998 was under $1 million and the Company estimates that future costs could range up to $3 million. Many of the Company's systems were upgraded or replaced in the ordinary course of business during the last five years, and costs related to those upgrades and replacements are not included in the Year 2000 Project expenses.

The Company believes that with the completion of its Year 2000 Project as scheduled, the risks will be minimized and the possibility of significant interruptions of operations reduced. However, if the Company and its third party suppliers and customers do not complete in a timely manner their assessment, remediation and testing for Year 2000 compliance, there can be no assurance that Year 2000 problems will not materially adversely affect the Company's results of operations or its relationships with its suppliers and customers. The Company has not yet been able to clearly identify the most reasonably likely worst case scenarios and the appropriate contingency plans for such scenarios. As the Company completes all phases of its Year 2000 Project, it will prepare contingency plans to deal with any areas where it determines that risks of non-compliance are significant.

MARKET RISK

The Company is exposed to various market risks, including changes in commodity prices, interest rates and foreign currency exchange rates. The Company's objective is to minimize the impact of these market risks on its earnings, cash flow and equity. Derivatives are used, as noted below, in accordance with policies and procedures approved by the Board of Directors and are managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. The Company does not enter into financial instruments for trading purposes.

Most of the Company's revenues and expenses are U.S.-dollar denominated. However, the Company does have some risk within its New Zealand operations related to foreign currency pricing and costs. The Company enters into foreign currency forward contracts periodically to manage the risks of foreign currency fluctuations as they relate to the cash flow and earnings of that business unit. The Company also periodically enters into commodity forward contracts to fix certain energy costs. On December 31, 1998, there were no foreign currency or commodity forward contracts outstanding.

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, 1998, 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 30 basis points. The swap agreement was initiated at the time a fixed rate medium-term note with similar maturity was placed. The fair value of the interest rate swap, at year-end, was a gain of $0.1 million. Market risk resulting from a hypothetical 1 percent 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, 1998 was $224 million compared to $215 million carrying value. A 1 percent decrease in prevailing interest rates at December 31, 1998 would result in an increase in the fair value of the Company's fixed rate debt of approximately $7 million.

SAFE HARBOR

Comments about market trends, anticipated earnings and activities in 1999 and beyond, including disclosures about the Company's Year 2000 project and environmental spending are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Changes in factors referred to in such comments and disclosures and changes in the following additional important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: adverse weather conditions in the Company's operating areas; competitive products and pricing; fluctuations in demand, particularly for specialty fluff pulps, export and domestic logs, and wood products; the impact of such market factors on the Company's timber sales in the U.S. and New Zealand; the impact of global market conditions on prices and volumes; production costs for wood products and for specialty pulps, particularly for raw materials such as wood and chemicals; governmental policies and regulations affecting the environment, import and export controls and taxes; and interest rate and currency movements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Statements on page ii.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10 with respect to directors is incorporated herein by reference to the definitive proxy statement involving the election of directors filed or to be filed by Rayonier with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

The information called for by Item 10 with respect to executive officers is set forth above in Part I under the caption Executive Officers of Rayonier.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

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

2. See Index to Financial Statement Schedules on page ii for a list of the financial statement schedules filed as a part of this report.

3. See Exhibit Index on pages B, C, D and E for a list of the exhibits filed or incorporated herein as part of this report.

(b) Reports on Form 8-K:

1. The Company did not file any reports on Form 8-K during the last quarter of the period covered by this report.

REPORT OF MANAGEMENT

To Our Shareholders

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

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

W. LEE NUTTER
Chairman, President and
Chief Executive Officer

GERALD J. POLLACK
Senior Vice President and
Chief Financial Officer

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, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, as described in the Index to Financial Statements. These financial statements are the responsibility of Rayonier's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rayonier Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Stamford, Connecticut
January 20, 1999

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

	1998	1997	1996
SALES	$ 1,008,566	$ 1,104,228	$ 1,178,040
Costs and expenses			
Cost of sales	852,483	902,734	981,337
Selling and general expenses	35,467	42,410	39,409
Other operating (income) expense, net	(3,507)	(7,046)	(1,210)
Provision for dispositions	--	--	124,587
	884,443	938,098	1,144,123
OPERATING INCOME	124,123	166,130	33,917
Interest expense	(34,712)	(25,868)	(27,662)
Interest and miscellaneous income (expense), net	743	(2,490)	7,762
Gains from sale of assets	--	8,395	--
Minority interest	--	(25,520)	(27,474)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	90,154	120,647	(13,457)
Income tax (expense) benefit	(26,519)	(33,328)	13,297
INCOME (LOSS) FROM CONTINUING OPERATIONS	63,635	87,319	(160)
Provision for discontinued operations, net	--	--	(98,239)
NET INCOME (LOSS)	$ 63,635	$ 87,319	$ (98,399)
NET INCOME (LOSS) PER COMMON SHARE			
BASIC EPS			
Continuing operations	$ 2.26	$ 3.03	$ (--)
Discontinued operations	--	--	(3.28)
Net income (loss)	$ 2.26	$ 3.03	$ (3.28)
DILUTED EPS			
Continuing operations	$ 2.22	$ 2.97	$ (--)
Discontinued operations	--	--	(3.28)
Net income (loss)	$ 2.22	$ 2.97	$ (3.28)

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

RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

As of December 31,
(Thousands of dollars)

ASSETS

	1998	1997
CURRENT ASSETS		
Cash and short-term investments	$ 6,635	$ 10,661
Accounts receivable, less allowance for doubtful accounts of $4,843 and $4,481	118,762	115,704
Inventories	98,910	114,148
Timber purchase agreements	35,776	31,758
Other current assets	13,192	13,955
Deferred income taxes	8,559	24,288
Total current assets	281,834	310,514
OTHER ASSETS	65,988	55,791
TIMBER PURCHASE AGREEMENTS	20,922	28,248
TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION	544,190	497,110
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment	1,304,188	1,266,431
Less - accumulated depreciation	616,266	562,536
	687,922	703,895
	$1,600,856	$1,595,558

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

RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

As of December 31,
(Thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1998	1997
CURRENT LIABILITIES		
Accounts payable	$ 65,844	$ 74,269
Bank loans and current maturities	4,094	4,194
Accrued taxes	8,728	10,973
Accrued payroll and benefits	21,460	18,694
Accrued interest	6,182	6,076
Other current liabilities	44,279	66,085
Current reserves for dispositions and discontinued operations	22,167	26,247
Total current liabilities	172,754	206,538
DEFERRED INCOME TAXES	115,405	113,442
LONG-TERM DEBT	485,850	421,325
NON-CURRENT RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	159,198	172,615
OTHER NON-CURRENT LIABILITIES	28,690	31,997
MINORITY INTEREST	--	16,959
SHAREHOLDERS' EQUITY		
Common Shares, 60,000,000 shares authorized, 27,767,309 and 28,283,634 shares issued and outstanding	79,561	102,175
Retained earnings	559,398	530,507
	638,959	632,682
	$1,600,856	$1,595,558

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

RAYONIER INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

For the Year Ended December 31,
(Thousands of dollars)

	1998	1997	1996
OPERATING ACTIVITIES			
Net income (loss)	$ 63,635	$ 87,319	$ (98,399)
Non-cash items included in income			
Depreciation, depletion and amortization	101,083	99,309	96,910
Deferred income taxes	11,659	14,045	(80,235)
Write-off of property, plant and equipment	5,730	2,100	94,164
Reserve for dispositions and discontinued operations	--	--	192,623
Disposition of New Zealand timber assets	--	4,634	--
(Decrease) increase in other non-current liabilities	(3,307)	1,468	5,325
Change in accounts receivable, inventories and accounts payable	3,755	35,157	2,678
(Increase) decrease in current timber purchase agreements	(4,018)	(342)	16,025
Decrease (increase) in other current assets	763	(732)	2,189
(Decrease) increase in accrued liabilities	(21,179)	10,861	9,261
Reduction in reserves for dispositions	(1,050)	(900)	(5,000)
CASH FROM OPERATING ACTIVITIES	157,071	252,919	235,541
INVESTING ACTIVITIES			
Capital expenditures, net of sales and retirements of $5,613, $4,691 and $11,544	(89,099)	(132,272)	(175,200)
Acquisition of Rayonier Timberlands, L.P. Class A Units	(48,821)	--	--
Expenditures for dispositions and discontinued operations, net of tax benefits of $6,033, $8,793 and $1,185	(10,414)	(15,423)	(2,049)
Change in timber purchase agreements and other assets	(2,871)	(10,672)	(1,433)
CASH USED FOR INVESTING ACTIVITIES	(151,205)	(158,367)	(178,682)
FINANCING ACTIVITIES			
Issuance of debt	282,905	342,226	40,472
Repayments of debt	(218,480)	(349,617)	(57,298)
Dividends paid	(34,744)	(34,523)	(34,229)
Repurchase of Common Shares	(26,548)	(48,396)	(16,522)
Issuance of Common Shares	3,934	4,892	3,169
Buyout of minority interest	(16,959)	(1,905)	49
CASH USED FOR FINANCING ACTIVITIES	(9,892)	(87,323)	(64,359)
CASH AND SHORT-TERM INVESTMENTS			
(Decrease) increase in cash and short-term investments	(4,026)	7,229	(7,500)
Balance, beginning of year	10,661	3,432	10,932
Balance, end of year	$ 6,635	$ 10,661	$ 3,432
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 34,868	$ 29,951	$ 30,440
Income taxes	$ 11,673	$ 8,671	$ 7,462

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

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

1. NATURE OF BUSINESS OPERATIONS

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

TIMBER AND WOOD PRODUCTS

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

FOREST RESOURCES AND TRADING - Rayonier owns, leases or controls approximately 1.5 million acres of timberlands in the U.S. and New Zealand. Rayonier is also a leading exporter and trader of softwood logs, lumber and wood panel products.

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

SPECIALTY PULP PRODUCTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

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

CASH AND SHORT-TERM INVESTMENTS

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

INVENTORIES

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

TIMBER PURCHASE AGREEMENTS AND TIMBER-CUTTING CONTRACTS

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

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

DEFERRED 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 $16,727 and $14,913 as of December 31, 1998 and 1997, respectively. Amortization expense amounted to $3,028, $2,918 and $1,577 in 1998, 1997 and 1996, respectively.

TIMBER AND TIMBERLANDS

The acquisition cost of land, timber, real estate taxes, lease payments, site preparation and other costs relating to the planting and growing of timber are capitalized. Such accumulated costs attributed to merchantable timber are charged against revenue at the time the timber is harvested based on the relationship of harvested timber to the estimated volume of currently merchantable timber. Timber and 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, which includes applicable freight, taxes, interest, construction and installation costs. Interest capitalized in connection with major construction projects, primarily the New Zealand MDF facility, amounted to $262, $5,005, and $2,664 during 1998, 1997 and 1996, 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 included in operating income.

DEPRECIATION

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

RESEARCH AND DEVELOPMENT

Significant costs are incurred for research and development programs expected to contribute to the profitability of future operations. Such costs are expensed as incurred. Research and development expenditures amounted to $10,720, $9,656, and $11,000 in 1998, 1997 and 1996, respectively.

FOREIGN CURRENCY TRANSLATION

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

INCOME TAXES

Income taxes on foreign operations are provided based upon the statutory tax rates of the applicable foreign country. Additional U.S. income taxes have not been provided on approximately $74 million of undistributed foreign earnings as the Company intends to permanently reinvest such earnings in expanding foreign operations.

3. SEGMENT AND GEOGRAPHICAL INFORMATION

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

Rayonier operates in two major business segments, Timber and Wood Products, and Specialty Pulp Products. The Timber and Wood Products segment includes two reportable business units under SFAS No. 131: Forest Resources and Trading, and Wood Products. Forest Resources and Trading manages timberlands and sells standing timber, purchases and harvests timber to sell logs, and purchases lumber and wood panel products for resale. Wood Products manufactures and sells dimension and specialty lumber and medium-density-fiberboard products. Specialty Pulp Products produces and sells chemical cellulose, fluff and specialty pulps. Dispositions includes activities of former operating units, including the Company's Port Angeles mill, which was permanently closed in 1997.

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

	Sales			Operating Income		
	1998	1997	1996	1998	1997	1996
TIMBER AND WOOD PRODUCTS						
Forest Resources and Trading	$ 402	$ 420	$ 482	$ 118	$ 118	$ 124
Wood Products	121	133	104	(16)	6	3
	523	553	586	102	124	127
Specialty Pulp Products	488	520	514	34	56	57
Corporate and other	(2)	(3)	(10)	(12)	(17)	(16)
Dispositions	--	34	88	--	3	(134)
Total	$ 1,009	$ 1,104	$ 1,178	$ 124	$ 166	$ 34

	GROSS PLANT ADDITIONS			DEPRECIATION, DEPLETION AND AMORTIZATION			IDENTIFIABLE ASSETS		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
TIMBER AND WOOD PRODUCTS									
Forest Resources and Trading	$ 28	$ 37	$ 37	$ 26	$ 23	$ 22	$ 691	$ 666	$ 673
Wood Products	7	38	72	10	8	6	164	162	124
	35	75	109	36	31	28	855	828	797
Specialty Pulp Products	59	61	71	65	66	60	690	691	703
Corporate and other	1	1	1	--	1	--	33	46	49
Dispositions	--	--	6	--	1	9	23	31	49
Total	$ 95	$ 137	$ 187	$ 101	$ 99	$ 97	$1,601	$1,596	$1,598

Custodial capital spending was $58 million, $72 million, and $83 million in 1998, 1997 and 1996, respectively. Custodial capital spending is defined as capital expenditures to maintain current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition, and in compliance with regulatory requirements.

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

GEOGRAPHICAL OPERATING INFORMATION

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

OPERATING LOCATION	SALES			OPERATING INCOME			IDENTIFIABLE ASSETS		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
United States	$ 928	$ 992	$1,059	$ 141	$ 163	$ 32	$1,253	$1,222	$1,275
New Zealand	64	90	96	(14)	8	5	336	357	301
All other	17	22	23	(3)	(5)	(3)	12	17	22
Total	$1,009	$1,104	$1,178	$ 124	$ 166	$ 34	$1,601	$1,596	$1,598

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

SALES LOCATION

	Sales by Destination					
	1998	%	1997	%	1996	%
United States	$ 587	58	$ 568	51	$ 527	45
Japan	107	11	173	16	234	20
Other Asia	109	11	154	14	192	16
Europe	121	12	127	12	135	11
Latin America	54	5	59	5	57	5
All other	31	3	23	2	33	3
Total	$1,009	100	$1,104	100	$1,178	100

4. FINANCIAL INSTRUMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, but may be adopted as of the beginning of any fiscal quarter after issuance. Upon adoption, SFAS No. 133 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

INTEREST RATE SWAPS

Rayonier 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, 1998, 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 30 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 generate approximately 6 percent of the Company's sales. A significant portion of the revenue from Rayonier's New Zealand operations is in U.S. dollars or significantly affected by the New Zealand dollar/U.S. dollar exchange rate. However, most of its cash operating costs are incurred in New Zealand dollars with New Zealand dollar expenses exceeding New Zealand dollar revenues. The Company believes that it has been able to mitigate most of the effect of exchange rate fluctuations of the New Zealand dollar through risk management activities involving foreign currency forward contracts, thereby normalizing the contribution of its New Zealand operations toward what it would have been without exchange rate movements. The Company plans to continue this program but will continue to limit its mark-to-market exposure so as not to have a material effect on EPS if exchange rates move rapidly.

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

	1998	1997	1996
Operating income (loss) on a 1996 exchange rate basis	$(21)	$ 4	$ 5
Effect of exchange rate changes	7	4	--
Operating income (loss) as reported	(14)	8	5
Gain (loss) from foreign currency forward contracts	(1)	(3)	6
Contribution from New Zealand operations	$(15)	$ 5	$11

Rayonier's forward contracts are intended to cover anticipated operating needs and therefore do not "hedge" firm contracts or commitments in accordance with SFAS No. 52, "Foreign Currency Translation." As a result, the gains and losses on these contracts are included in "Interest and miscellaneous income (expense), net" based on mark-to-market values at reporting dates. In 1998, the maximum foreign currency forward contracts outstanding at any point in time totaled $23,605. At December 31, 1998, there were no foreign currency forward contracts outstanding.

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, 1998.

FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 31, 1998 and 1997, the estimated fair values of Rayonier's financial instruments were as follows:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSET (LIABILITY)				
Cash and short-term investments	$ 6,635	$ 6,635	$ 10,661	$ 10,661
Debt	(489,944)	(499,252)	(425,519)	(438,310)
Foreign currency forward contracts	--	--	(2,365)	(2,365)
Interest rate swap agreements	--	121	--	(287)

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

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

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

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

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

5. GAINS FROM SALE OF ASSETS

From time to time, Rayonier opportunistically sells non-strategic assets to maximize value from its asset mix. In December 1997, the Company sold a 75 percent interest in approximately 6 percent of its timber holdings in New Zealand to a timber investment fund as part of a joint venture with the Company. Rayonier acquired a 25 percent interest in two forests owned by

the investment fund. Rayonier received net cash proceeds of $11.7 million and recorded a pretax gain of $8.4 million, $5.6 million after-tax, or 19 cents per share. Rayonier also has marketing and management responsibilities for the joint venture.

6. RAYONIER TIMBERLANDS, L.P.

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

7. INCOME TAXES

The provision for income taxes consists of the following:

	1998	1997	1996
CURRENT			
U.S. federal	$ 5,534	$ 6,531	$ 5,446
State and local	535	1,292	2,290
Foreign	1,687	1,709	1,596
	7,756	9,532	9,332
DEFERRED			
U.S. federal	28,815	24,652	(70,108)
State and local	682	540	(6,469)
Foreign	(10,734)	(1,396)	(2,813)
	18,763	23,796	(79,390)
	$ 26,519	$ 33,328	$(70,058)

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, 1998 and 1997 were related to the following principal timing differences:

	1998	1997
Accelerated depreciation and depletion	$(142,974)	$(133,521)
Reserves for dispositions and discontinued operations	35,477	39,907
All other, net	651	4,460
	$(106,846)	$ (89,154)

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

	1998	1997	1996	1996*
Income tax provision at U.S. statutory rate	$ 31,554	$ 42,226	$(58,960)	$ 38,896
State and local taxes, net of federal tax benefit	791	1,191	(2,716)	1,806
Foreign operations	(2,541)	(5,647)	(4,988)	(4,988)
Foreign sales corporations	(1,825)	(2,200)	(2,391)	(2,391)
Research and development tax credits	(1,508)	(1,675)	--	--
All other, net	48	(567)	(1,003)	(1,003)
Provision for income taxes - reported	$ 26,519	$ 33,328	$(70,058)	$ 32,320
Effective tax rate - %	29.4	27.6	(41.6)	29.1

*Excludes the tax benefits of $102 million for the two significant non-cash charges in 1996

8. EARNINGS (LOSS) PER COMMON SHARE

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

The following table provides details of the calculation of basic and diluted EPS for 1998, 1997 and 1996:

	1998	1997	1996
Income (loss) from continuing operations	$ 63,635	$ 87,319	$ (160)
Shares used for determining basic EPS	28,118,402	28,820,115	29,978,012
Dilutive effect of:			
Stock options	266,441	389,131	*
Contingent shares	223,708	221,250	*
Shares used for determining diluted EPS	28,608,551	29,430,496	29,978,012
Basic EPS-continuing operations	$ 2.26	$ 3.03	$ (-)
Diluted EPS-continuing operations	$ 2.22	$ 2.97	$ (-)

*Outstanding stock options and contingent shares would be antidilutive in 1996 and therefore were excluded.

9. INVENTORIES

Rayonier's inventories included the following at December 31, 1998 and 1997:

	1998	1997
Finished goods	$ 47,109	$ 51,398
Work in process	15,762	17,491
Raw materials	13,212	19,740
Manufacturing and maintenance supplies	22,827	25,519
	$ 98,910	$114,148

10. DEBT

Rayonier's debt included the following at December 31, 1998 and 1997:

	1998	1997
Short-term bank loans at a weighted average rate of 5.88%	$130,119	$123,352
Commercial paper at discount rates of 5.25% to 6.00%	109,000	56,000
Medium-term notes due 2000-2001 at variable interest rates of 5.5% to 5.55%	36,000	33,000
Medium-term notes due 1999-2001 at fixed interest rates of 6.0% to 6.16%	20,000	16,000
7.5% notes due 2002	110,000	110,000
Pollution control and industrial revenue bonds due 1999-2015 at fixed interest rates of 5.4% to 8.0%	84,650	86,830
All other	175	337
Total debt	489,944	425,519
Less:		
Short-term bank loans	1,619	1,852
Current maturities	2,475	2,342
Long-term debt	$485,850	$421,325

Rayonier has revolving credit agreements with a group of banks that provide the Company with unsecured credit facilities totaling $300 million and expiring in 2002. The revolving credit facilities are used for direct borrowings and as credit support for a commercial paper program. As of December 31, 1998, the Company had $109 million of outstanding commercial paper and $191 million of available borrowings under its revolving credit facilities. In addition, through currently effective shelf registration statements filed with the Securities and Exchange Commission, Rayonier may offer up to $200 million of new public debt securities.

Required repayments of debt are as follows:

1999	$ 4,094
2000	22,420
2001	23,185
2002	364,810
2003	2,330
2004-2016	73,105
	$489,944

Medium-term notes, commercial paper and short-term bank loans totaling $252.5 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 at December 31, 1998, provided that the ratio of total debt to EBITDA not exceed 4 to 1. As of December 31, 1998, the ratio was 2.3 to 1. In addition, $389 million of retained earnings was unrestricted as to the payment of dividends.

11. DISPOSITIONS AND DISCONTINUED OPERATIONS

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

In the fourth quarter of 1996, Rayonier recorded a disposition charge of $79 million after-tax, or $2.63 per share, primarily related to the closure of the Port Angeles pulp mill. The Company concluded that the mill was not competitive in world markets because of long-term high wood costs due to federal environmental restrictions on Northwest timber harvests, viscose pulp capacity additions in lower cost regions of the world and anticipated large expenditures for new environmental regulations. The $125 million pretax charge included a $77 million loss on disposal of mill assets with a net book value of $84 million, accruals of $40 million for severance, relocation, demolition, environmental cleanup and other items associated with the disposition, and $8 million for loss on disposal of other non-strategic assets. Dismantling and demolition of the mill began in 1997 and is expected to be completed in 1999. During 1997, Port Angeles pulp product sales contributed $3 million to operating income.

In the fourth quarter of 1996, the Company also adopted Statement of Position 96-1 "Environmental Remediation Liabilities" issued by the American Institute of Certified Public Accountants. The statement specifically identified future, long-term monitoring and administration expenditures as remediation liabilities that need to be accrued on the balance sheet as an existing obligation. Adoption of the pronouncement resulted in a cash neutral pretax charge of $155 million, $98 million after-tax, or $3.28 per share. Although the Company had already accrued for cleanup and closure remediation liabilities associated with its SWP wood treating business (discontinued in 1986), the cash expenditures for monitoring and administration activities of approximately $4 million pretax, or 8 cents per share, had been expensed as incurred in 1996. These monitoring costs are expected to continue on an annual basis, plus inflation, for approximately 25-30 years as mandated by state and federal regulations. The Company's annual cash flow was not impacted by adoption of the accounting pronouncement.

As of December 31, 1998 and 1997, Rayonier had $11.5 million of receivables from insurance claims included in "Other assets." Such receivables represent the Company's claim for reimbursements in connection with property damage settlements relating to SWP's discontinued wood preserving operations.

Rayonier currently estimates that expenditures during 1999-2000 for environmental remediation and monitoring costs for all dispositions and discontinued operations will total approximately $27 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, 1998, these reserves totaled approximately $181 million. The amount of actual future environmental costs is dependent on the outcome of negotiations with federal and state agencies and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Based on information currently available, the Company does not believe that any future changes in estimates, if necessary, would materially affect its consolidated financial condition or results of operations.

Reductions in reserves for dispositions, primarily related to completed projects associated with the closure of the Grays Harbor facility, that were recognized in income amounted to $1 million, $1 million and $5 million in 1998, 1997 and 1996, respectively.

12. SHAREHOLDERS' EQUITY

An analysis of activity in shareholders' equity for the three years ended December 31, 1998 follows:

	Common Shares		Retained	Total Shareholders'
	Shares	Amount	Earnings	Equity
BALANCE, JANUARY 1, 1996	29,653,278	$ 159,032	$ 610,339	$ 769,371
Net loss	--	--	(98,399)	(98,399)
Dividends paid	--	--	(34,229)	(34,229)
Incentive stock plans	66,977	3,169	--	3,169
Repurchase of Common Shares	(437,800)	(16,522)	--	(16,522)
BALANCE, DECEMBER 31, 1996	29,282,455	145,679	477,711	623,390
Net income	--	--	87,319	87,319
Dividends paid	--	--	(34,523)	(34,523)
Incentive stock plans	124,679	4,892	--	4,892
Repurchase of Common Shares	(1,123,500)	(48,396)	--	(48,396)
BALANCE, DECEMBER 31, 1997	28,283,634	102,175	530,507	632,682
Net income	--	--	63,635	63,635
Dividends paid	--	--	(34,744)	(34,744)
Incentive stock plans	112,154	3,934	--	3,934
Repurchase of Common Shares	(628,479)	(26,548)	--	(26,548)
BALANCE, DECEMBER 31, 1998	27,767,309	$ 79,561	$ 559,398	$ 638,959

13. INCENTIVE STOCK PLANS

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

Restricted stock granted under the 1994 Plan vests after three years. During 1997 and 1996, 2,000 and 27,500 restricted shares were granted with grant-date fair values per share of $38.13 and $33.38 for 1997 and 1996, respectively.

In 1998, 1997 and 1996, 91,500, 93,000 and 48,000 Common Shares, respectively, were reserved for contingent performance shares. The actual number of performance shares to be issued is contingent upon the Company's total shareholder return, compared with a competitive peer group of 12 companies within the forest products industry over a three-year period. The grant-date fair values of the 1998, 1997 and 1996 performance shares were $42.63, $38.13 and $33.38, respectively.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" to account for its stock plans. The compensation cost recognized was $2,837, $3,904 and $3,737 in 1998, 1997 and 1996, respectively. Under SFAS No. 123, "Accounting for Stock Based Compensation," net income (loss) and earnings (loss) per share would have been reduced (increased) by $1,844 or 6 cents per share, $1,431 or 5 cents per share and $1,008 or 3 cents per share for 1998, 1997 and 1996, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yield of 3.1 percent, 3.0 percent and 3.1 percent; expected volatility of 24.1 percent for 1998 and 22.5 percent for 1997 and 1996; risk-free interest rates of 5.8 percent, 6.3 percent and 5.6 percent; and an expected life of 7.5 years for all years. The weighted average fair value of options granted during the year was $11.41, $10.46 and $8.39 for 1998, 1997 and 1996, respectively.

A summary of the status of the Company's stock option plans as of December 31, 1998, 1997 and 1996, and changes during the years then ended is presented below:

	1998		1997		1996	
	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	1,551,611	$32.05	1,268,288	$29.99	974,614	$28.64
Granted - 1994 Incentive Stock Plan	371,500	$42.64	370,500	$38.34	355,000	$33.53
Exercised	(66,618)	$30.12	(80,345)	$28.24	(39,477)	$27.79
Canceled	(12,997)	$39.87	(6,832)	$36.01	(21,849)	$31.38
Outstanding at end of year	1,843,496	$34.20	1,551,611	$32.05	1,268,288	$29.99
Options exercisable at year-end	1,130,690	$30.67	857,833	$29.23	596,001	$28.13

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			
Range of Exercise Prices	Number Outstanding at 12/31/98	Weighted Average Remaining Contractual Life	Options Exercisable at 12/31/98	Weighted Average Exercise Price
$16.57 - $19.72	85,986	1.8 years	85,986	$ 18.52
$28.88 - $31.35	703,211	5.5 years	703,211	$ 29.96
$33.38 - $48.56	1,054,299	8.1 years	341,493	$ 35.19

14. EMPLOYEE BENEFIT PLANS

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

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

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

	Pension			Postretirement		
	1998	1997	1996	1998	1997	1996
Components of net periodic benefit cost						
Service cost	$ 5,255	$ 4,871	$ 5,136	$ 400	$ 407	$ 429
Interest cost	7,803	7,461	7,311	1,328	1,305	1,254
Actual return on plan assets	(17,807)	(21,788)	(14,254)	--	--	--
Amortization of prior service cost and deferrals	8,862	13,373	6,330	(434)	(434)	(840)
Amortization of (gains) losses	384	207	342	634	572	551
Net periodic benefit cost of Rayonier plans	4,497	4,124	4,865	1,928	1,850	1,394
Defined contribution plans	2,056	2,437	2,326	--	--	--
Multi-employer plans	--	--	--	550	592	393
Total pension/postretirement benefit expense	$ 6,553	$ 6,561	$ 7,191	$ 2,478	$ 2,442	$ 1,787

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, 1998 and 1997 and the principal weighted-average assumptions inherent in their determination:

	Pension		Postretirement	
	1998	1997	1998	1997
Change in benefit obligation				
Benefit obligation at beginning of year	$ 113,407	$ 105,899	$ 20,405	$ 17,915
Service cost	5,255	4,871	400	407
Interest cost	7,803	7,461	1,328	1,305
Curtailment (gain) loss	--	2,952	--	240
Actuarial (gain) loss	4,925	7,535	(199)	1,668
Benefits paid	(7,620)	(15,311)	(1,388)	(1,130)
Benefit obligation at end of year	123,770	113,407	20,546	20,405
Change in plan assets				
Fair value of plan assets at beginning of year	119,862	110,397	--	--
Actual return on plan assets	17,698	21,788	--	--
Employer contribution	748	3,592	1,388	1,130
Other expense	(518)	(604)	--	--
Benefits paid	(7,620)	(15,311)	(1,388)	(1,130)
Fair value of plan assets at end of year	130,170	119,862	--	--
Reconciliation of funded status at end of year				
Funded status	6,400	6,455	(20,546)	(20,405)
Unrecognized prior service cost	10,582	11,618	(3,517)	(3,951)
Unrecognized actuarial net (gain) loss	(14,837)	(8,616)	9,591	10,424
Curtailment effects and termination benefits	--	(2,952)	--	--
Unrecognized net transition obligation	(2,844)	(3,505)	--	--
(Accrued) prepaid benefit cost	$ (699)	$ 3,000	$ (14,472)	$ (13,932)
Weighted-average assumptions as of December 31				
Return on plan assets	9.75%	9.75%	--	--
Rate of compensation increase	5.00%	5.00%	--	--
Ultimate health care trend rate	--	--	5.00%	5.00%
Discount rate	6.75%	7.00%	6.75%	7.00%

The table for 1997 reflects the costs of curtailment and special termination benefits of an hourly Rayonier pension plan as a result of the closure of the Port Angeles pulp mill. See Note 11. The costs of $2,952 were recorded as part of the 1996 charge of $125 million primarily related to the Port Angeles pulp mill closure and were accounted for in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits."

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 7.5 percent for 1998, decreasing ratably to 5 percent in the year 2001. The following table shows the effect of a one percent change in assumed health care cost trends on:

	1 Percent	
	Increase	Decrease
Year end benefit obligation	$ 782	$(746)
Total of service and interest cost components	$ 62	$ (59)

15. COMMITMENTS

The Company leases certain buildings, machinery and equipment under various operating leases. As of December 31, 1998, minimum rental commitments under operating leases were $5,759, $4,857, $9,982, $1,717 and $1,646 for 1999, 2000, 2001, 2002 and 2003, respectively. For the remaining years, such commitments amount to $2,382, aggregating total minimum lease payments of $26,343. Total rental expense for operating leases amounted to $7,383, $7,545 and $5,609, in 1998, 1997 and 1996, respectively. Additionally, the Company has indirectly guaranteed approximately $20.7 million of debt that is secured by equipment used by its vendors to provide products to the Company.

16. 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, 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 eight sites, all of which relate to operations classified under "Dispositions and Discontinued Operations." Rayonier has entered into settlement agreements with the U.S. EPA at four of these sites and has negotiated, or is in the process of negotiating, consent orders with state environmental agencies for environmental remediation at three of these sites. Rayonier believes that an appropriate provision for remediation costs at these sites is included in its reserves for estimated environmental obligations including the reserves for dispositions and discontinued operations. See Note 11.

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. In particular, Rayonier is one of two defendants in an action seeking indemnity for $57 million in damages incurred as the result of a fire and explosion at a storage facility where a Rayonier pulp manufacturing by-product was stored. In April 1998, summary judgment in favor of Rayonier was entered. The plaintiffs have appealed the entry of summary judgment. Rayonier continues to vigorously defend the action, believes that its defenses are meritorious and based on advice of counsel, believes that its liability, if any, will not be material and will be covered by its product liability insurance.

ENVIRONMENTAL MATTERS

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal that, in the opinion of management, will require substantial expenditures over the next 10 years. During 1997, the EPA finalized its Cluster Rules governing air emissions but, due to the specialty nature of Rayonier's products and operations, postponed finalizing water discharge rules governing the Company's pulp mills. The Company continues to work with the EPA to establish appropriate water discharge rules for the pulp mills, but the timing and costs associated with such rulemaking is 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.

Over the past several years, the Company has worked with the state of Washington to implement protective measures with respect to several endangered species. The effect has been to restrict harvesting in various habitats on Company land. 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.

17. QUARTERLY RESULTS FOR 1998 AND 1997 (UNAUDITED)
(thousands of dollars, except per share amounts)

	Quarter Ended				Total
	March 31	June 30	Sept. 30	Dec. 31	Year
1998					
Sales	$ 225,414	$ 254,011	$ 258,740	$ 270,401	$1,008,566
Operating income	34,157	35,172	25,368	29,426	124,123
Net income	18,196	18,440	12,841	14,158	63,635
Basic EPS	.64	.65	.46	.51	2.26
Diluted EPS	.63	.64	.45	.50	2.22
1997					
Sales	$ 260,138	$ 290,073	$ 266,853	$ 287,164	$1,104,228
Operating income	40,473	41,075	41,894	42,688	166,130
Net income	18,396	19,761	23,241	25,921	87,319
Basic EPS	.63	.68	.81	.91	3.03
Diluted EPS	.62	.67	.79	.89	2.97

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAYONIER INC.

By GERALD J. POLLACK

Gerald J. Pollack
Senior Vice President and Chief Financial Officer

March 19, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
* W. Lee Nutter (Principal Executive Officer)	Chairman of the Board, President, Chief Executive Officer and Director	
GERALD J. POLLACK Gerald J. Pollack (Principal Financial Officer and Principal Accounting Officer)	Senior Vice President and Chief Financial Officer	March 19, 1999
* Rand V. Araskog	Director	
* Donald W. Griffin	Director	
* Ronald M. Gross	Director	
* Paul G. Kirk, Jr.	Director	
* Katherine D. Ortega	Director	
* Burnell R. Roberts	Director	
* Carl S. Sloane	Director	
* Nicholas L. Trivisonno	Director	
* Gordon I. Ulmer	Director	

*By GERALD J. POLLACK March 19, 1999

Attorney-In-Fact

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	LOCATION
2.1	Distribution agreement between ITT Corporation and Rayonier Inc.	Incorporated by reference to Exhibit 2.1 to the Registrant's December 31, 1993 Form 10-K
3.1	Amended and Restated Articles of Incorporation	Incorporated by reference to Exhibit 4(a) to the Registrant's Registration Statement on Form S-8 (Registration No. 33-52437)
3.2	By-Laws	Incorporated by reference to Exhibit 3.2 to the Registrant's December 31, 1995 Form 10-K
4.1	Indenture dated as of September 1, 1992 between the Company and Bankers Trust Company, as Trustee, with respect to certain debt securities of the Company	Incorporated by reference to Exhibit 4.1 to the Registrant's December 31, 1993 Form 10-K
4.2	First Supplemental Indenture dated as of December 13, 1993	Incorporated by reference to Exhibit 4.2 to the Registrant's December 31, 1993 Form 10-K
4.3	$100 million 364-day Revolving Credit Agreement dated as of April 14, 1995 among Rayonier Inc. as Borrower and the banks named therein as Banks, Citibank, N.A. as Administrative Agent and Citicorp Securities, Inc. and the Toronto-Dominion Bank as Arrangers	Incorporated by reference to Exhibit 4.1 to the Registrant's March 31, 1995 Form 10-Q
4.4	$200 million Revolving Credit Agreement dated as of April 14, 1995 among Rayonier Inc. as Borrower and the banks named therein as Banks, Citibank, N.A. as Administrative Agent and Citicorp Securities, Inc. and the Toronto-Dominion Bank as Arrangers	Incorporated by reference to Exhibit 4.2 to the Registrant's March 31, 1995 Form 10-Q
4.5	Amendment No.1, dated as of June 16, 1995 to the $100 million 364-day Revolving Credit Agreement dated as of April 14, 1995 among Rayonier Inc. as Borrower and the banks named therein as Banks, Citibank, N.A. as Administrative Agent and Citicorp Securities, Inc. and the Toronto-Dominion Bank as Arrangers	Incorporated by reference to Exhibit 4.1 to the Registrant's June 30, 1996 Form 10-Q
4.6	Amendment No. 2, dated as of April 12, 1996 to the $100 million 364-day Revolving Credit Agreement dated as of April 14, 1995 among Rayonier Inc. as Borrower and the banks named therein as Banks, Citibank, N.A. as Administrative Agent and Citicorp Securities, Inc. and the Toronto-Dominion Bank as Arrangers	Incorporated by reference to Exhibit 4.2 to the Registrant's June 30, 1996 Form 10-Q

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	LOCATION
4.7	Amendment No. 1, dated as of June 16, 1995 to the $200 million Revolving Credit Agreement dated as of April 14, 1995 among Rayonier Inc. as Borrower and the banks named therein as Banks, Citibank, N.A. as Administrative Agent and Citicorp Securities, Inc. and the Toronto-Dominion Bank as Arrangers	Incorporated by reference to Exhibit 4.3 to the Registrant's June 30, 1996 Form 10-Q
4.8	Amendment No. 2, dated as of April 12, 1996 to the $200 million Revolving Credit Agreement dated as of April 14, 1995 among Rayonier Inc. as Borrower and the banks named therein as Banks, Citibank, N.A. as Administrative Agent and Citicorp Securities, Inc. and the Toronto-Dominion Bank as Arrangers	Incorporated by reference to Exhibit 4.4 to the Registrant's June 30, 1996 Form 10-Q
4.9	Amended and Restated Revolving Credit Agreement dated as of April 11, 1997, for the $200 million Revolving Credit Agreement dated as of April 14, 1995 as amended as of June 16, 1995 and as of April 12, 1996 among Rayonier Inc. as Borrower and the banks named therein as Banks, Citibank, N.A. as Administrative Agent and Citicorp Securities, Inc. and the Toronto-Dominion Bank as Arrangers	Incorporated by reference to Exhibit 4.1 to the Registrant's March 31, 1997 Form 10-Q
4.10	Other instruments defining the rights of security holders, including indentures	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any other instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission
9	Voting trust agreement	None
10.1	Rayonier 1994 Incentive Stock Plan, as amended	Incorporated by reference to Exhibit 10.1 to the Registrant's September 30, 1998 Form 10-Q.
10.2	Rayonier Supplemental Senior Executive Severance Pay Plan	Incorporated by reference to Exhibit 10.2 to the Registrant's December 31, 1997 Form 10-K.
10.3	Rayonier Investment and Savings Plan for Salaried Employees	Incorporated by reference to Exhibit 10.3 to the Registrant's December 31, 1997 Form 10-K.
10.4	Rayonier Salaried Employees Retirement Plan	Incorporated by reference to Exhibit 10.4 to the Registrant's December 31, 1997 Form 10-K.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	LOCATION
10.5	Form of Indemnification Agreement between Rayonier Inc. and its Directors and Officers	Incorporated by reference to Exhibit 10.9 to the Registrant's December 31, 1993 Form 10-K
10.6	Rayonier Inc. Excess Benefit Plan	Incorporated by reference to Exhibit 10.10 to the Registrant's December 31, 1993 Form 10-K
10.7	Amendment to Rayonier Inc. Excess Benefit Plan dated August 18, 1997	Incorporated by reference to Exhibit 10.7 to the Registrant's December 31, 1997 Form 10-K
10.8	Rayonier Inc. Excess Savings and Deferred Compensation Plan	Incorporated by reference to Exhibit 10.8 to the Registrant's December 31, 1997 Form 10-K
10.9	Form of Rayonier Inc. Excess Savings and Deferred Compensation Plan Agreements	Incorporated by reference to Exhibit 10.13 to the Registrant's December 31, 1995 Form 10-K
10.10	Form of Indemnification Agreement between Registrant and directors of Rayonier Forest Resources Company, its wholly owned subsidiary which is Managing General Partner of Rayonier Timberlands, L.P., who are not also directors of Registrant	Incorporated by reference to Exhibit 10.1 to the Registrant's March 31, 1994 Form 10-Q
10.11	Description of Rayonier 1994 Incentive Stock Plan Contingent Performance Share Awards	Incorporated by reference to Exhibit 10.1 to the Registrant's June 30, 1994 Form 10-Q
10.12	Form of Rayonier 1994 Incentive Stock Plan Contingent Performance Share Award Agreement	Incorporated by reference to Exhibit 10.1 to the Registrant's June 30, 1994 Form 10-Q
10.13	Form of Rayonier 1994 Incentive Stock Plan Restricted Share Award Agreement	Incorporated by reference to Exhibit 10.17 to the Registrant's December 31, 1995 Form 10-K
10.14	Form of Rayonier 1994 Incentive Stock Non-qualified Stock Option Award Agreement	Incorporated by reference to Exhibit 10.18 to the Registrant's December 31, 1995 Form 10-K
10.15	Rayonier Substitute Stock Option Plan	Incorporated by reference to Exhibit 4(c) to the Registrant's Registration Statement on Form S-8 (File No. 33-52891)
10.16	Form of Rayonier Substitute Stock Option Award Agreements	Incorporated by reference to Exhibit 10.20 to the Registrant's December 31, 1995 Form 10-K

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	LOCATION
10.17	Split-Dollar Life Insurance Agreement dated June 22, 1994 between Rayonier Inc. and Ronald M. Gross	Incorporated by reference to Exhibit 10.2 to the Registrant's June 30, 1994 Form 10-Q
10.18	Amendment to Split-Dollar Life Insurance Agreement, dated July 22, 1997	Incorporated by reference to Exhibit 10.18 to the Registrant's December 31, 1997 Form 10-K
10.19	Deferred Compensation/ Supplemental Retirement Agreement dated June 28, 1994 between Rayonier Inc. and Ronald M. Gross	Incorporated by reference to Exhibit 10.3 to the Registrant's June 30, 1994 Form 10-Q
10.20	Amendment to Deferred Compensation/Supplemental Retirement Agreement, dated July 22, 1997	Incorporated by reference to Exhibit 10.20 to the Registrant's December 31, 1997 Form 10-K
10.21	Consulting Agreement dated October 19, 1998 between Rayonier Inc. and Ronald M. Gross	Filed herewith
10.22	Other material contracts	None
11	Statement re computation of per share earnings	Not required to be filed
12	Statements re computation of ratios	Filed herewith
13	Annual report to security holders, Form 10-Q or quarterly report to security holders	Not applicable
16	Letter re change in certifying accountant	Not applicable
18	Letter re change in accounting principles	Not applicable
21	Subsidiaries of the Registrant	Incorporated by reference to Exhibit 21 to the Registrant's December 31, 1993 Form 10-K
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	Filed herewith
24	Powers of attorney	Filed herewith
27	Financial data schedule	Filed herewith
28	Information from reports furnished to state insurance regulatory authorities	Not applicable
99	Additional exhibits	None

Exhibit 10.21

CONSULTING AGREEMENT

CONSULTING AGREEMENT (this "Agreement") made as of the 19th day of October, 1998 by and between Ronald M. Gross, residing at the address indicated following his signature below (hereinafter referred to as "Mr. Gross") and Rayonier Inc., a North Carolina corporation having its principal place of business at 1177 Summer Street, Stamford, Connecticut 06905 (hereinafter referred to as the "Company").

W I T N E S S E T H:

WHEREAS, Mr. Gross has provided valuable service to the Company and its shareholders as Chief Executive Officer of the Company since 1981 and as the Company's Chairman of the Board of Directors since 1984;

WHEREAS, on May 15, 1998, Mr. Gross was reelected a Class I Director of the Company for a term ending in 2001;

WHEREAS, Mr. Gross intends to retire from his employment with the Company, and the Company desires to have Mr. Gross continue as a director and to have the opportunity to consult Mr. Gross following his retirement; and

WHEREAS, Mr. Gross is willing to remain a director of the Company and to undertake such consulting obligations on the terms and conditions contained herein.

NOW THEREFORE, in consideration of their mutual promises, and for other good and valuable consideration, the parties, intending to be legally bound, agree as follows:

1. Retirement. Mr. Gross will voluntarily retire and thereby terminate his employment with the Company on December 31, 1998 (his "Retirement"), and relinquish his role as Chairman of the Board of Directors.

2. Directorship. (a) Nomination. Mr. Gross shall remain a Class I Director of the Company for the remainder of his term ending in May, 2001, and the Company hereby agrees to nominate Mr. Gross for election as a Class I Director at each Annual Meeting at which Class I Directors are elected in 2001 and 2004 and, if reelected, Mr. Gross agrees to continue to serve in such capacity through the Company's Annual Meeting in 2007. As a director, Mr. Gross shall be entitled to compensation for such service on the same terms as the Company's other non-employee members of the Board of Directors in accordance with the Company's policies as may be in effect from time to time, effective January 1, 1999 (the "Effective Date"); provided that, within 30 days of the Effective Date, the Company shall pay to Mr. Gross one-half of the annual retainer paid to non-employee directors elected on May 15, 1998 in respect of Mr. Gross's service as a director for the period from the Effective Date though the date of the Company's Annual Meeting in 1999.

(b) Consulting Term. In addition to his service as a director of the Company, Mr. Gross agrees to provide consulting services to the Board of Directors. The term of this arrangement shall be for the period from the Effective Date through the date of the Company's Annual Meeting in 2007, or, absent a change in control (defined below), for such shorter period as he may remain a director, provided that such consulting term shall in no event end before October 19, 2005 (the "Consulting Term"). Apart from his compensation as a director, the Company shall pay Mr. Gross an annual retainer of $50,000, for each year or part thereof in the term, payable as a lump sum at the same time as the annual retainer paid to non-employee directors (including Mr. Gross); provided that, within 30 days of the Effective Date, the Company shall pay to Mr. Gross $25,000 in respect of Mr. Gross's consulting services hereunder for the period from the Effective Date through the date of the Company's Annual Meeting in 1999. During the Consulting Term, Mr. Gross also shall be entitled to reimbursement of reasonable expenses incurred in his consulting service. Mr. Gross's consulting services shall include such services as Mr. Gross is requested to perform from time to time by the Board of Directors, acting through its Chairman, and that Mr. Gross, in his sole discretion, determines to undertake during the Consulting Term.

3. Separation Benefits. In addition to, and without limiting, any and all other benefits otherwise payable to Mr. Gross, from and after the Effective Date, Mr. Gross shall be entitled to the following:

(a) Insurance Premium Reimbursement/Deferred Compensation. On or about January 1, 2000, Mr. Gross will be paid a lump sum of $300,000 (the "Insurance Reimbursement"), together with an amount (the "tax gross up") such that after payment of all federal and state taxes in respect of such payment(s) from the Company Mr. Gross shall have received the full after tax value of such amounts, together with a tax gross up of such amount estimated at $237,000. The Insurance Reimbursement is intended to correspond to the present day value estimate of certain amounts payable as premiums in connection with a participation by Mr. Gross in the AIG Executive Edge sponsored insurance protection for ITT/Rayonier Executive non-qualified benefit plans ("Executive Security Coverage") for an extended nine-year period. If Mr. Gross so advises the Company in writing on or before December 31, 1999, in lieu of the lump sum payment provided in respect of the Insurance Reimbursement, a deferred compensation payment of $80,500 instead will be paid each January 15th, commencing in the year 2000, for nine consecutive years, which annual amount is intended to correspond to the annual premium for Executive Security Coverage ($45,000) plus tax gross-up ($35,500) in each such year. All of the deferred compensation amounts payable hereunder shall be payable without regard to whether or not Mr. Gross elects to continue Executive Security Coverage.

(b) Tax Service/Financial Planning. Continuation of Mr. Gross's right to receive a Senior Executive Tax Service/Financial Planning ("Tax Planning Allowance") allowance in the amount of $15,000 per year, plus tax gross-up, to cover the costs of Mr. Gross's 2000 and 2001 tax filings for calendar years 1999 and 2000 and related planning, including applicable carry over provisions, in the same manner as if Mr. Gross remained in his present capacities and not retired.

(c) Annual Physical. From and after the Effective Date, the Company shall pay for the reasonable cost of an annual physical for Mr. Gross through and including his last year as a director of the Company, in the same manner as if Mr. Gross remained in his present capacities and not retired.

4. Office. From and after the Effective Date, Mr. Gross shall be entitled to, and the Company shall provide Mr. Gross with, an off-site office at a location of Mr. Gross's choosing (the "Office") through the later of (i) the year 2005 or (ii) the termination of Mr. Gross's Consulting Term. The Company shall provide Mr. Gross with certain services in connection with the Office, including, without limitation, secretarial services, utilities, telephone, facsimile, computer equipment, and Company car/driver service, as available, in addition to private car service for Mr. Gross' business use (the "Services"). The cost of maintaining the Office and the Services will be determined by market conditions and shall be subject to cost of living adjustments.

5. Non-Disclosure. (a) General. Mr. Gross acknowledges that his work as a consultant hereunder will continue to bring him into close contact with the Confidential Information (defined below) of the Company and of third parties. Mr. Gross acknowledges that such Confidential Information continues to be reposed in him in trust. Mr. Gross agrees that he shall, both during and after his tenure as a consultant hereunder, maintain such Confidential Information in confidence and neither disclose to others (nor cause to be disclosed) nor use personally (nor cause to be used) such Confidential Information without the prior written permission of the Company. Mr. Gross will also take reasonable precautions to prevent the inadvertent exposure of Confidential Information to unauthorized persons or entities. Mr. Gross acknowledges that the covenants in this Agreement are a continuation of those that have existed during the term of his employment with the Company. These covenants are expressions of his duties, formerly as an employee, and continuing as a director and now consultant of the Company not to use the Confidential Information to the detriment of the Company. In addition, Mr. Gross acknowledges that he shall benefit from entry into this Agreement in that the Company shall be willing to continue to provide access to Confidential Information to Mr. Gross. The obligations under this paragraph shall survive the termination of this Agreement.

(b) Confidential Information. As used herein, "Confidential Information" means all confidential information and trade secrets of the Company or any of its Affiliates, whether now existing or hereafter acquired or developed, including without limitation financial statements, business plans, working methods, investments, materials, processes, programs, designs, names of and relationships with current vendors and lenders and other third parties, contractual arrangements, profit formulas, experimental investigations, studies, current customer/vendor names and requirements, current professional associations or contacts, information submitted to the Company or its Affiliates by third parties on a confidential basis, similar other non-public or otherwise confidential, sensitive or proprietary information. "Confidential Information" does not include information that has become generally known within the forest products industry without breach of any obligation of confidentiality of Mr. Gross. (As used herein, the term "Affiliate" means any entity controlling, controlled by or under common control with the Company, now or in the future, including without limitation, partnerships in which the

Company or any Affiliate may acquire a controlling interest as a limited or general partner and limited liability companies in which the Company or any Affiliate may become a member.)

6. Non-Competition. Because Mr. Gross's consulting services to the Company are special and because Mr. Gross has access to the Company's confidential information, Mr. Gross covenants and agrees that during the Consulting Term, and for six (6) months thereafter, Mr. Gross will not, directly or indirectly, either on his own behalf or on behalf of any person, partnership, corporation or otherwise, be employed by or provide consulting services to, or be an investor, partner, member or more than 2% shareholder of, any company from time to time identified in the peer group forest product industry companies used for purposes of measuring total shareholder return for Contingent Performance Share awards granted to employees of the Company under the 1994 Rayonier Incentive Stock Plan, without the prior written consent of the Company's Board of Directors. The parties agree that the time period and scope of the non-competition specified above are reasonable and necessary in light of the matters contemplated by this Agreement. If, however, it shall be determined at any time by a court of competent jurisdiction that either the time period restriction or the geographical area restriction, or both, are invalid or unenforceable, the parties agree that any such restriction determined to be invalid or unenforceable shall be deemed so amended as to make such restriction valid and enforceable in the determination of said court, and such restriction, as so amended, shall be enforceable between the parties to the same extent as if such amendment had been made as of the date of this Agreement. This paragraph shall survive the termination of this Agreement for the period indicated above.

7. Change in Control. Unless Mr. Gross shall have been notified and approved thereof prior thereto in writing, in the event of a Change in Control of the Company, all payments under this Agreement, including, without limitation, payments under Sections 2(b), 3(a) and 3(b), shall be accelerated to the effective date of such Change in Control. Payments under Section 2(b) shall be calculated on the basis of the full Consulting Term to June 1, 2007; provided that, at Mr. Gross's sole option, Mr. Gross may, by written notice to the Company, forego payment of amounts due under Section 2(b) and the Consulting Term shall thereupon lapse. For this purpose, a Change in Control shall have the meaning specified in the Retirement Plan for Salaried Employees of Rayonier Inc., as amended effective July 18, 1997, and as the same may be thereafter amended from time to time prior to the occurrence of a Change in Control.

8. Notices. Any notice permitted or required hereunder shall be deemed sufficient when hand-delivered or mailed by certified mail, postage prepaid, and addressed if to the Company, Attn.: Chairman, at the address indicated above and if to Mr. Gross at the address indicated below (or to such other address as may be provided by notice).

9. Entire Agreement. This Agreement constitutes the entire agreement between the parties concerning the subjects hereof and supersedes any and all prior agreements or understandings.

10. Assignment. This Agreement may not be assigned by Mr. Gross without the prior written consent of the Company. This Agreement may be assigned by the Company and shall be binding upon, and inure to the benefit of, the Company's successors and assigns.

11. Headings. Headings herein are for convenience of reference only and shall not define, limit or interpret the contents hereof.

12. Amendment. This Agreement may be amended, modified or supplemented by the mutual consent of the parties in writing, but no oral amendment, modification or supplement shall be effective.

13. Specific Performance. The parties acknowledge that the Company would be irreparably damaged and there would be no adequate remedy at law for Mr. Gross's breach of Sections 5 and 6 of this Agreement, and accordingly, the terms thereof shall be specifically enforced. Mr. Gross hereby consents to the entry of any temporary restraining order or preliminary or ex parte injunction, in addition to any other remedies available at law or in equity, to enforce the provisions hereof.

14. Severability. The provisions of this Agreement are severable. The invalidity of any provision shall not affect the validity of any other provision.

15. Governing Law. This Agreement shall be construed and regulated in all respects under the laws of the State of Connecticut.

16. Authorization. Execution of this Agreement by the undersigned on behalf of the Company has been approved by the Board of Directors of the Company at a meeting on October 16, 1998, as reflected in the minutes of said meeting.

IN WITNESS WHEREOF, this Agreement is entered into as of the date and year first above written.

RAYONIER INC.

By ____
Name: John P. O'Grady
Title: Senior Vice President, Administration

Consultant:

____
Name: Ronald M. Gross
Address: 925 Westover Road
Stamford, Connecticut 06902

EXHIBIT 12

RAYONIER INC. AND SUBSIDIARIES
RATIO OF EARNINGS TO FIXED CHARGES
(Unaudited, thousands of dollars)

	Year Ended December 31				
	1998	1997	1996	1995	1994
Earnings:					
Income (loss) from continuing operations	$ 63,635	$ 87,319	$ (160)	$142,348	$ 70,032
Add (deduct):					
Income tax	26,519	33,328	(13,297)	65,711	38,038
Minority interest	--	25,520	27,474	29,897	32,419
Amortization of capitalized interest	2,331	2,067	4,505	1,963	1,644
	92,485	148,234	18,522	239,919	142,133
Adjustments to earnings for fixed charges:					
Interest and other financial charges	34,712	25,868	27,662	33,615	31,065
Interest factor attributable to rentals	1,750	1,974	2,187	1,444	1,474
	36,462	27,842	29,849	35,059	32,539
Earnings as adjusted	$128,947	$176,076	$ 48,371	$274,978	$174,672
Fixed charges:					
Fixed charges above	$ 36,462	$ 27,842	$ 29,849	$ 35,059	$ 32,539
Capitalized interest	262	5,005	2,664	1,346	194
Total fixed charges	36,724	32,847	32,513	36,405	32,733
Ratio of earnings as adjusted to total fixed charges	3.51	5.36	1.49	7.55	5.34
Effective tax rate	29%	28%	(42)%	32%	35%

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Rayonier Inc.:

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements on Forms S-3 (File Nos. 033-52855 and 333-52857).

ARTHUR ANDERSEN LLP

Stamford, Connecticut
March 23, 1999

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints GERALD J. POLLACK, LISA M. PALUMBO and JOHN B. CANNING his or her true and lawful attorneys-in-fact, with full power in each to act without the other and with full power of substitution and resubstitution to sign in the name of such person and in each of his or her offices and capacities in Rayonier Inc. (the "Company") the Annual Report on Form 10-K for the fiscal year ended December 31, 1998 of the Company, and to file the same, and any amendments thereto, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Dated: March 19, 1999

/s/ W.LEE NUTTER
- -----------------------------------
W. Lee Nutter
Chairman of the Board, President,
Chief Executive Officer and Director

/s/ RAND V. ARASKOG
- -----------------------------------
Rand V. Araskog
Director

/s/ DONALD W. GRIFFIN
- -----------------------------------
Donald W. Griffin
Director

/s/ RONALD M. GROSS
- -----------------------------------
Ronald M. Gross
Director

/s/ PAUL G. KIRK, JR
- -----------------------------------
Paul G. Kirk, Jr.
Director

/s/ KATHERINE D. ORTEGA
- -----------------------------------
Katherine D. Ortega
Director

/s/ BURNELL R. ROBERTS
- -----------------------------------
Burnell R. Roberts
Director

/s/ CARL S. SLOANE
- -----------------------------------
Carl S. Sloane
Director

/s/ NICHOLAS L. TRIVISONNO
- -----------------------------------
Nicholas L. Trivisonno
Director

/s/ GORDON I. ULMER
- -----------------------------------
Gordon I. Ulmer
Director

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