

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the year ended December 31, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)  
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 1996-1999

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  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.

The aggregate market value of the Common Shares of the registrant held by non-affiliates of the Registrant on March 6, 1996 was approximately \$1,010,000,000.

As of March 6, 1996, there were outstanding 29,634,678 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 17, 1996, is incorporated by reference in Part III of this Form 10-K.

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

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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.

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## ITEM 1. BUSINESS

## GENERAL

Rayonier Inc. (Rayonier or the Company) is a leading international forest products company primarily engaged in the trading, merchandising and manufacture of logs, timber and wood products, and in the production and sale of high-value-added specialty pulps. Rayonier owns, leases or controls approximately 1.47 million acres of timberland in the United States and New Zealand. In addition, the Company operates three pulp mills and three lumber manufacturing facilities in the United States.

Rayonier traces its origin to the founding of Rainier Pulp and Paper Company in Shelton, Washington, in 1926. With the consolidation of several pulp companies in 1937, the Company became "Rayonier Incorporated", a corporation whose stock was publicly traded on the New York Stock Exchange (NYSE) until Rayonier became a wholly owned subsidiary of ITT Industries, Inc. (ITT), formerly known as ITT Corporation, in 1968. On February 28, 1994, Rayonier again became an independent company when ITT distributed all of the Common Shares of Rayonier to ITT stockholders. Rayonier shares are publicly traded on the NYSE under the symbol RYN.

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

Rayonier operates in two major business segments, Timber and Wood Products and Specialty Pulp Products. In 1995, Timber and Wood Products accounted for 47 percent of sales and Specialty Pulp Products accounted for 53 percent of sales. With customers in 70 countries, more than half of Rayonier's 1995 sales of \$1.26 billion were shipped to customers outside of the United States, with Asia Pacific and Western European customers representing 38 percent and 12 percent of total sales in 1995, respectively. For further data 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 17 - Segment Information of the Notes to Consolidated Financial Statements.

## TIMBER AND WOOD PRODUCTS

Rayonier's Timber and Wood Products business segment is composed of three principal lines of business: (1) Log trading and merchandising, (2) Timberlands management and stumpage and (3) Wood products. Sales for the last three years by principal line of business were as follows (in millions of dollars):

Timber and Wood Products	Sales		
	1995	1994	1993
Log trading and merchandising	\$393	\$347	\$334
Timberlands management and stumpage	168	173	120
Wood products	75	79	47
Intrasegment eliminations	(18)	(21)	(16)
Total	\$618	\$578	\$485
	===	===	===

## LOG TRADING AND MERCHANDISING

Rayonier is a leading supplier and exporter of softwood logs. The sale of logs accounted for approximately 64 percent of the Timber and Wood Products segment's sales in 1995. Rayonier buys and harvests timber stumpage (cutting rights to standing timber) principally in Northwest North America from third parties as well as from Company sources on an arms-length basis, competitively auctioned or negotiated. The Company also purchases, merchandises and sells purchased logs from New Zealand, both domestically in New Zealand as well as in export markets. In 1995, 67 percent of New Zealand's sales came from Company-managed timberlands. In North America, 9 percent of sales was directly sourced from Rayonier's timberlands, however, additional logs were purchased from local dealers who had, in turn, purchased their cutting rights from the Company's timberland stumpage sales.

The logs harvested and purchased are sold into export markets (primarily Japan, Korea and China), as well as to pulp and lumber mills in domestic markets. The Company also trades Canadian, Chilean and Russian timber. During 1995, approximately 73 percent of the revenues Rayonier derived from the sale of logs were from logs sold to export markets.

#### TIMBERLANDS MANAGEMENT AND STUMPAGE

Rayonier manages timberlands, scientifically growing and nurturing tree stands until their economic peak for specific markets. The average rotation age for timber destined for export markets from the Northwestern United States is 50 years (primarily hemlock and Douglas fir species). The average rotation age for timber from the Southeastern United States is 25 years for timber sold to sawmills and 20 years for pulpwood destined for pulp and paper mills. The Company manages its timberlands on a sustainable yield basis in conformity with forest industry practices.

The Company is organized to regularly sell timber stumpage in North America through auction processes predominately to third parties. By requiring the Company's other business sectors (e.g., Specialty Pulp Products, Wood Products and Log Trading and Merchandising) to competitively bid on the stumpage, the Company believes it can maximize the true economic return on its investment.

Another key to the success of the Company's management of timberlands has been the extensive application of Rayonier's silvicultural expertise to species selection for plantations, soil preparation, thinning of timber stands, pruning of selected species and careful timing of harvest, all designed to maximize growth and forest yields while responding to environmental needs.

As of December 31, 1995, Rayonier managed approximately 1.47 million acres of timberlands, with approximately 860,000 acres or 58 percent located in the Southeastern United States, approximately 379,000 acres or 26 percent located in the Pacific Northwest (see Rayonier Timberlands, L.P.) and approximately 234,000 acres or 16 percent located in New Zealand.

The 860,000 acres of Southeastern timberlands are located primarily in Georgia and Florida. Their proximity to a large number of pulp, paper and lumber mills results in significant competition for the purchase of Rayonier's timber. Approximately 746,000 acres are owned in fee and 114,000 acres are held under long-term leases. The Southeastern timberlands include approximately 550,000 acres of pine plantations, 307,000 acres of hardwood lands and 3,000 non-forest acres (representing main line and access roads and other acreage not suitable for forest development). Approximately 46 percent of the timber harvest is pulpwood, which is destined for pulp mills, with the remaining 54 percent representing higher value sawlogs, which are sold to sawmills. Over the last five years the Company, through advanced silvicultural practices, has been able to increase the amount of timber volume per acre available for harvest from its Southeastern timberlands by approximately 2 percent per year and expects this trend to continue.

The 379,000 acres of the Company's Northwestern 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 approximately 322,000 acres of softwood stands, approximately 73 percent of which is hemlock and 27 percent Douglas fir, western red cedar and white fir. The Northwestern timberlands also include approximately 19,000 acres of hardwood timber stands, consisting principally of alder and maple. The remaining 38,000 acres are classified as non-forest lands.

Rayonier, through its wholly owned New Zealand subsidiary, holds forest assets consisting primarily of Crown Forest licenses providing the right to utilize approximately 234,000 acres of New Zealand plantation forests for a minimum period of 35 years. Most of these timberlands consist of radiata pine trees, with a planting-to-harvesting time of approximately 27 years, well-suited for the highest quality lumber and panel products. These trees typically produce up to twice as much fiber per acre, per year as the most productive commercial tree species in the United States. Rayonier grows and harvests the New Zealand timber for both domestic New Zealand uses and for export primarily to Pacific Rim markets.

Rayonier seeks to maximize timberland value through reforestation and intensive silvicultural research to improve tree growth and to systematically manage the timberlands investment cycle by optimizing the economic returns on a species, site and market driven basis. Management of the Company's forest resources includes the annual planting of millions of genetically improved seedlings developed at Rayonier or cooperative nurseries.

## WOOD PRODUCTS

Rayonier's two Georgia lumber mills located at Baxley and Swainsboro convert southern yellow pine timber into dimension and specialty lumber products for residential construction and industrial uses. The Baxley mill utilizes modern and technologically advanced equipment, including computer and laser technology. The other lumber operations (an integrated complex located at Swainsboro and Lumber City, Georgia) were acquired in October 1993. They have a combined annual capacity of approximately 225 million board feet of lumber and, in 1995 an output of approximately 430,000 tons of wood chips for pulping. The mills sell their lumber output primarily in Southeastern markets. Substantially all of the wood chip production, however, is sold (at market price) to Rayonier's Jesup, Georgia pulp facility and accounted for approximately 22 percent of Jesup's 1995 pine chip consumption.

Rayonier's third lumber manufacturing facility, which was acquired in 1995, is located in Plummer, Idaho. The facility consists of a lumber mill and remanufacturing plant, with annual capacity of 60 million board feet and 12 million board feet, respectively.

The sale of lumber accounted for approximately 12 percent of the Timber and Wood Products segment's sales in 1995. In addition, the Company is constructing a medium-density fiberboard facility in New Zealand with an annual capacity of 140,000 cubic meters. The Company expects the facility to begin operations in 1997. Sales of logs and lumber in the Timber and Wood Products segment are made directly by Rayonier sales personnel to customers, although sales to certain export locations are made through agents.

## SPECIALTY PULP PRODUCTS

Rayonier is a leading specialty manufacturer of chemical cellulose, often called dissolving pulp, from which customers produce a wide variety of products, principally textile, industrial and filtration fibers, plastics and other chemical intermediate industrial products. Rayonier believes that it is one of the world's largest manufacturers of high-grade chemical cellulose. 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.

Sales for the last three years, by principal line of business are shown below (in millions of dollars):

Specialty Pulp Products	Sales		
	1995	1994	1993
Chemical cellulose	\$379	\$307	\$279
Fluff and specialty paper pulps	283	193	183
Total	\$662	\$500	\$462

Rayonier manufactures more than 25 different grades of pulp. The Company owns and operates three wood pulp mills in Jesup, Georgia, Fernandina Beach, Florida, and Port Angeles, Washington which have an aggregate annual capacity of approximately 826,000 metric tons. Rayonier's wood pulp production facilities are able to manufacture a broad mix of products to meet customers' needs. The Jesup facility, a kraft mill that began operations in 1954 and was subsequently significantly expanded and modernized, today accounts for approximately 530,000 metric tons of annual wood pulp production capacity, or 64 percent of Rayonier's current total. The Fernandina Beach facility began operations in 1939 and accounts for approximately 146,000 metric tons of annual wood pulp production capacity, or 18 percent of Rayonier's current total. The Port Angeles facility began operations in 1929 and accounts for approximately 150,000 metric tons of annual wood pulp production capacity, or 18 percent of Rayonier's current total.

Rayonier concentrates on the production of specialty market pulps to customers' specifications that are sold to industrial companies producing a wide variety of products. Over half of Rayonier's pulp sales are to export customers, primarily in Western Europe and Asia Pacific. 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 with the aid of agents.

## CHEMICAL CELLULOSE

Rayonier is one of the world's leading producers of chemical cellulose, often 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. Chemical cellulose accounted for approximately 57 percent of the Company's Specialty Pulp Products' sales in 1995.

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. In each of these markets, Rayonier believes it is the leading supplier.

## FLUFF AND SPECIALTY PAPER PULPS

Rayonier believes it is one of the top five suppliers to fluff pulp users. Fluff pulp is used as an absorbent medium in products such as disposable baby diapers, personal sanitary napkins, incontinent pads, convalescent bed pads, industrial towels and wipes and non-woven fabrics. Fluff pulp accounted for approximately 36 percent of the Company's pulp sales in 1995.

Rayonier is a major producer of specialty paper pulps and produces a small volume of regular paper pulp. Customers use Rayonier's specialty paper pulps to manufacture paper for decorative laminates for counter tops, shoe innersoles, battery separators, circuit boards, air and oil filters and filter media for the food industry. Specialty paper pulp sales were 4 percent of Rayonier's total pulp sales in 1995. A small volume of regular paper pulp, approximately 3 percent of total Company pulp sales, is used in the manufacture of bond, book and printing paper.

## PULP PRICING

Pulp industry prices are cyclical. In 1994, Specialty Pulp Products began to emerge from a four-year down-turn characterized by weak worldwide demand and excess capacity for pulp products. Demand continued to strengthen in 1995 and Rayonier realized significant price increases for all of its specialty pulp products. The prices of Rayonier's pulp products generally begin to rise midway through the business cycle and lag commodity pulp price increases by up to a year. An industry-wide near-term inventory correction beginning in the fourth quarter of 1995 resulted in a reduction in fluff pulp prices from earlier high levels, as well as a reduction in Southeast U.S. stumpage prices. That trend is expected to continue into 1996. However, price increases implemented in the first quarter of 1996 for chemical cellulose products are expected to offset some of those effects in the first half of the year.

Because Rayonier is a non-integrated market pulp producer, its high-value product mix pricing trends tend to lag (on both the upturn and downturn) pulp and paper industry trends which are dominated by paper, paperboard and newsprint products. Over the past ten to twelve years, compared to commodity paper pulp prices, the Company's price trends for fluff grades have lagged by one to two quarters and for chemical cellulose by three to four quarters.

## FOREIGN SALES AND OPERATIONS

Rayonier relies on foreign markets for its pulp and timber products with approximately 56 percent of its sales going to foreign customers during the past five years. In 1995, Asian markets accounted for 33 percent of U.S. sales and Western Europe 13 percent. Exports, primarily to Asian markets, also accounted for 60 percent of Rayonier's New Zealand sales. The Company is therefore reasonably dependent upon strong economic growth in all international markets including that of the United States. With alternate markets in Latin America and the Middle East, however, the Company has been able to spread its geographical risk when specific markets have entered economic recessions.

Overseas assets amounted to 15 percent of total assets as of the end of 1995, and Rayonier's sales from non-U.S. sources in 1995 were 11 percent of total sales.

See Note 17 - Segment Information of the Notes to Consolidated Financial Statements.

## DISPOSITIONS

Dispositions includes units and site facilities no longer considered integral to Rayonier's business strategy. This includes Rayonier's wholly owned subsidiary, Southern Wood Piedmont Company (SWP), its interest in the Grays Harbor, Washington, pulp and paper complex and other miscellaneous operations held for disposition.

In 1992, Rayonier provided \$180 million, pretax, for the loss on disposal of assets along with the costs for severance, demolition, and other close-down items associated with the disposition of the Grays Harbor complex. The Company has substantially completed all programs associated with this charge except for certain environmental remediation programs. In addition, in 1986, Rayonier discontinued the SWP treated wood business. Although operations have ceased, SWP is involved in several environmental remediation programs and is in negotiations with various state and federal agencies regarding the scope and timing for remaining programs. Future cost is dependent on the outcome of such negotiations and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Accordingly, although considerable progress on cleanup has been made, there is still uncertainty as to the timing and amount of future expenditures for completing environmental programs at Grays Harbor, the SWP sites and certain other non-operating locations.

Rayonier currently estimates that expenditures for environmental remediation during 1996-1997 will total approximately \$20 million, pretax. As of December 31, 1995, Rayonier had reserves of \$40 million for environmental obligations. The Company believes that any future changes in estimates, if necessary, will not materially affect its financial condition or results of operations.

## RAYONIER TIMBERLANDS, L.P.

In the United States, Rayonier manages timberlands and sells timber stumpage directly through Rayonier Timberlands, L.P. (RTLPL), a publicly traded master limited partnership. Rayonier and Rayonier Forest Resources Company (RFR), a wholly owned subsidiary, are the general partners of RTLPL. Rayonier also owns 74.7 percent of the Class A Limited Partnership Units, with the remaining 25.3 percent being publicly held. Revenues, expenses and cash flow associated with RTLPL's normal timber harvesting are allocated 95 percent to all Class A Units (24 percent to the publicly held Class A Units) through December 31, 2000 and 4 percent to all Class A Units (1 percent to the publicly held Class A Units) thereafter. RTLPL's sales of timber after that date as well as cash flow associated with land management activities before and after that date are principally allocable to the Class B Limited Partnership Units, all of which have been retained by Rayonier. RTLPL, through Rayonier Timberlands Operating Company, L.P., owns, leases and manages timberlands in the Southeastern and Northwestern United States previously owned or leased by Rayonier, sells timber stumpage from such timberlands and from time to time purchases and sells timberlands. RTLPL's timberlands provide a source of wood used in Rayonier's other businesses. Since RTLPL is majority owned by the Company, RTLPL is included in the Company's consolidated financial statements as a consolidated entity. The Company's investment in RTLPL as of December 31, 1995 was \$139 million, on the basis of historical cost.

## 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, overall, Rayonier's patents are of importance in the operation of its business, 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's total business.

## COMPETITION AND CUSTOMERS

Rayonier has for many years targeted the Pacific Rim as a market for its timber and wood products. Rayonier has been involved in the marketing of pulp products in Japan since the 1930's and in Korea and China for over 15 years.

The Company's domestic timberlands are located in two major timber growing regions of the United States (the Southeast and the Northwest), where timber markets are fragmented and very competitive. In the Northwest U.S., stumpage sold by John Hancock Mutual Life Insurance Co. and from Washington state-owned public forests are the most significant competition. In both the Northwest U.S. and Southeast U.S., smaller forest products companies and private land owners compete with the Company. Price is the principal method of competition in this market.



Export markets for Rayonier's logs are equally competitive, with logs available to customers from several countries and from several suppliers within each country. Within New Zealand, major competitors include Carter Holt Harvey Limited, Fletcher Challenge Limited and New Zealand Forestry Corporation. Weyerhaeuser Company, International Paper Company and Cavenham Forest Industries, Inc. are the principal competitors to Rayonier in the log trading business. Log customers may switch species of logs from those sold by Rayonier to other lower-cost species sourced elsewhere. Price is the principal method of competition with respect to the acquisition of logs or stumpage for resale, and price and customer relationships are important methods of competition in the sale of logs to final customers.

Rayonier's wood products, in particular lumber, compete with the products of numerous companies, many of which are larger and have greater resources than Rayonier. Such lumber also competes with alternative construction materials. In most of Rayonier's markets, competition is primarily through price, quality, customer relationships and technical service.

Rayonier is a major producer of specialty pulp products, including chemical cellulose, fluff and specialty paper pulps (for example, pulps for filtration papers) and is only a minor producer of regular paper making pulp. The Company's products are marketed worldwide against strong competition from domestic and foreign producers. Some of Rayonier's major competitors are Georgia-Pacific Corporation, International Paper Company, Weyerhaeuser Company, Buckeye Cellulose Corporation and Stora Kopparbergs Bergslags AB. Product performance, pricing and, to a lesser extent, technical service are the principal methods of competition.

Rayonier sells its pulp products primarily to a diversified group of major domestic and foreign companies. In 1995, 37 percent of pulp product sales were to the U.S., 28 percent to Asia Pacific, 22 percent to Western Europe, and 9 percent to Latin America.

#### ENVIRONMENTAL MATTERS

See Environmental Regulation in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 15 - Legal Proceedings of the Notes to Consolidated Financial Statements.

#### RAW MATERIALS

Regional timber availability continues to be restricted by legislation, litigation and pressure from various preservationist groups. While Rayonier's timber products business has benefited from a significant increase in log and timber stumpage prices, this increase has also adversely impacted fiber costs at Rayonier's Port Angeles pulp manufacturing facility in the Northwest and more recently, fiber costs to its mills in the Southeast.

Rayonier has pursued, and is continuing to pursue, reductions in costs of other raw materials, supplies and contract services at the Company's pulp mills. However, the recent strength in worldwide economies has caused the prices of some of the Company's process chemicals to increase above normal inflation. Management foresees no constraints in pricing or availability of its key raw materials, other than the comments concerning wood fiber and process chemicals above.

#### RESEARCH AND DEVELOPMENT

Rayonier believes it has one of the preeminent research facilities and staffs in the forest products industry. Rayonier has been able to utilize this research resource to enhance the marketing of its products to various customers. For its pulp business, 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. Research efforts are concentrated at the Rayonier Research Center in Shelton, Washington. The Company will relocate the Rayonier Research Center to Jesup, Georgia, in 1996.

Research activities related to Rayonier's forest resources operations include genetic tree improvement programs as well as applied silviculture programs to identify management practices that improve returns from the Company's timberland assets.

Research and development expenditures were \$8 million in 1995 and \$7 million each in 1994 and 1993.

## EMPLOYEE RELATIONS

Rayonier currently employs approximately 2,900 people. Of this number, approximately 2,700 are employees in the United States, of which 52 percent are covered by labor contracts. Most hourly employees are represented by one of ten labor unions. Generally, labor relations have been maintained in a normal and satisfactory manner.

Labor union contracts with Rayonier represent approximately 1,400 employees at the three pulp mills and at the Rayonier Research Center. Bargaining activity in 1995 resulted in a seven-year labor agreement with the four unions that represent the 788 hourly employees at the Jesup pulp mill. A four-year agreement with the two unions that represent the hourly employees at the Port Angeles pulp mill was completed in January 1996. Labor contracts for the Fernandina pulp mill will expire in 1997.

Rayonier has in effect various plans which extend to its employees and retirees certain group medical, dental and life insurance coverage, pension and other benefits. The cost of such benefit plans is borne primarily by Rayonier, with the exception of health care, for which employees are responsible for approximately 20 percent of premium costs.

## ITEM 2. PROPERTIES

RTLTP owns, leases or controls approximately 1.2 million acres of timberlands in the United States previously owned or leased by Rayonier. See Note 4 - Rayonier Timberlands, L.P. of the Notes to Consolidated Financial Statements. Rayonier, through its wholly owned subsidiary, RFR, as managing general partner of RTLTP, continues on behalf of RTLTP to manage such properties and sell stumpage therefrom to Rayonier as well as unaffiliated parties. Rayonier's New Zealand subsidiary owns or manages the forest assets on approximately 234,000 acres of plantation forests in New Zealand. Rayonier and its wholly owned subsidiaries own or lease various other properties used in their operations, including three pulp mills, three lumber manufacturing facilities, a research facility, various other timberlands and Rayonier's executive offices. These facilities (except for the executive offices in Stamford, Connecticut) are located in the Northwestern and Southeastern portions of the United States and in New Zealand.

## ITEM 3. LEGAL PROCEEDINGS

See Note 15 - Legal Proceedings of the Notes to Consolidated Financial Statements.

## 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 the fiscal year covered by this report.

## EXECUTIVE OFFICERS OF RAYONIER

RONALD M. GROSS, 62, Chairman of the Board, President and Chief Executive Officer - After joining Rayonier in March 1978 as President and Chief Operating Officer and a director, he was elected Chief Executive Officer in 1981 and Chairman in 1984. He also serves as President and a director of RFR and is a director of Lukens Inc. and The Pittston Company. Mr. Gross is a graduate of Ohio State University and the Harvard Graduate School of Business Administration.

WALLACE L. NUTTER, 52, Executive Vice President - He was elected Executive Vice President of Rayonier in 1987 and has overall responsibility for the specialty pulp, log trading and wood products businesses. He was named Senior Vice President, Operations, in 1985 and Vice President and Director, Forest Products Operations, in 1984. He joined Rayonier in 1967 in the Northwest Forest Operations. Mr. Nutter is a member of the Board of Governors of the National Council for Air and Stream Improvement. He graduated from the University of Washington and the Harvard Graduate School of Business Administration Advanced Management Program.

WILLIAM S. BERRY, 54, Senior Vice President, Forest Resources and Corporate Development - He was elected Senior Vice President, Forest Resources and Corporate Development, of Rayonier in January 1994. He was Senior Vice President, Land and Forest Resources, of Rayonier from January 1986 to January 1994. From October 1981 to January 1986 he was Vice President and Director of Forest Products Management. Mr. Berry joined Rayonier in 1980 as Director of Wood Products Management. He serves as Senior Vice President of RFR. He also serves on the Executive Board of the Center for Streamside Studies. 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, 54, 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 serves as Chief Financial Officer of RFR. He is a member of the New York Advisory Board of The Allendale Insurance Co., the financial management committee of the American Forest & Paper Association 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.

KEVIN S. O'BRIEN, 64, Senior Vice President - He was elected Senior Vice President, Pulp Marketing, for Rayonier in November 1989. In 1980 he had been elected a Vice President and appointed Director of Strategic Planning and Development, a position which he held until 1989. He joined Rayonier in 1957. He holds an A.B. in Economics from Harvard University and an MBA from New York University.

JOHN P. O'GRADY, 50, 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. Prior to joining Rayonier, he was Vice President, Administration, at ITT Federal Services Corporation from October 1983 through June 1991. Mr. O'Grady is a Management Trustee for United Paperworkers' Health and Welfare Trust and serves on the Trenton State College Advisory Council. 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.

KENNETH P. JANETTE, 50, Vice President and Corporate Controller - He joined Rayonier in August 1994 and was elected Vice President and Corporate Controller in October 1994. From 1990 to 1994, he was Vice President and Corporate Controller of Sunkyong America, Inc., an international trading company. He was with AMAX Inc. from 1977 to 1990 and previously with Arthur Andersen LLP. He is a Certified Public Accountant and a member of the Financial Executives Institute, the American Institute of Certified Public Accountants and the Institute of Management Accountants. He holds a B.S. degree in Accounting and an MBA in Finance from the University of Rochester.

## PART II

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

On February 28, 1994, ITT, the Registrant's sole shareholder, distributed, as a special dividend, all of the common shares of the Registrant. February 18, 1994 was the first trading day for Rayonier Common Shares on a when-issued basis. Regular trading commenced on March 2, 1994.

## RAYONIER COMMON SHARES - MARKET PRICES AND DIVIDENDS (UNAUDITED)

	High ----	Low ---	Composite Volume -----	Dividend -----
1995				
First Quarter	\$31.88	\$28.25	6,480,000	\$.25
Second Quarter	35.75	30.63	6,300,000	.25
Third Quarter	40.63	35.38	3,750,000	.25
Fourth Quarter	39.25	31.50	6,020,000	.25
1994				
First Quarter	\$35.00	\$27.50	14,410,000	\$.18
Second Quarter	30.50	26.75	8,400,000	.18
Third Quarter	34.63	28.38	4,090,000	.18
Fourth Quarter	32.25	27.00	5,380,000	.18

The above table 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.

On February 16, 1996, Rayonier announced a 4 cent, or 16 percent, increase in its quarterly dividend. The first quarter dividend of 29 cents per share is payable on March 29, 1996 to shareholders of record on March 8, 1996.

There were approximately 32,524 holders of record of Rayonier Common Shares on February 29, 1996.

## ITEM 6. SELECTED FINANCIAL DATA

The following summary of historical financial data for each of the five years ended December 31, 1995 are 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				
	1995	1994	1993	1992	1991
<b>OPERATIONS:</b>					
Sales	\$1,260	\$1,069	\$ 936	\$ 974	\$ 979
Operating income before provision for dispositions	234	169	130	102	97
Provision for dispositions	-	-	(3)	(189)(1)	-
Operating income (loss)	234	169	127	(87)	97
Income (loss) from continuing operations	142	70	52	(81)	44
Cumulative effect of accounting changes	-	-	-	(22)	-
Net income (loss)	142	70	52	(103)	44
<b>PER COMMON SHARE:</b>					
Income (loss) from continuing operations	\$ 4.75	\$ 2.36	\$ 1.77	\$ (2.77)	\$ 1.50
Cumulative effect of accounting changes	-	-	-	(0.74)	-
Net income (loss)	4.75	2.36	1.77	(3.51)	1.50
Dividends	1.00	.72	4.12(2)	.59	.66
Book Value	25.95	22.15	20.51	22.85	26.95
<b>FINANCIAL CONDITION:</b>					
Total assets	\$1,648	\$1,524	\$1,488	\$1,487	\$1,382
Total debt	450	483	498	403	205
Book value	769	655	606	676	797
<b>CASH FLOW:</b>					
Cash flow from operations	\$ 213	\$ 190	\$ 118	\$ 133	\$ 132
Capital expenditures	143	101	72	97	134
Depreciation, depletion and amortization	96	90	78	78	69
EBITDA(3)	303	229	187	156	147
EBIT(4)	207	139	109	78	78
Free cash flow(5)	107	90	36	24	11
Dividends	30	21	122(2)	18	20
<b>PERFORMANCE RATIOS:</b>					
Operating income to sales(6)	19%	16%	14%	10 %	10%
Return on equity(7)	20%	11%	8%	(11)%	6%
Return on assets(7)	9%	5%	4%	(6)%	3%
Debt to total capital	37%	43%	45%	37 %	20%
<b>OTHER:</b>					
Number of employees	2,900	2,700	2,600	2,800	3,000
Timberlands, thousands of acres	1,473	1,501	1,495	1,496	1,266

	Year Ended December 31				
	1995	1994	1993	1992	1991
SELECTED OPERATING DATA (UNAUDITED)					
Timber and Wood Products					
Log sales					
North America - million board feet	351	306	266	435	542
New Zealand - thousand cubic meters	1,682	1,623	1,375	682	259
Other - million board feet	17	9	11	-	-
Timber harvested					
Northwest U.S. - million board feet	175	194	143	195	189
Southeast U.S. - thousand short green tons	2,218	2,184	2,001	2,006	2,037
New Zealand - thousand cubic meters	1,133	1,155	918	636	-
Lumber sold - million board feet	213	197	125	118	103
Intercompany sales					
Logs - million board feet	22	13	15	20	35
Northwest U.S. timber stumpage - million board feet	32	36	28	44	68
Southeast U.S. timber stumpage - thousand short green tons	292	199	299	317	398
Specialty Pulp Products					
Chemical cellulose sales - thousand metric tons	440	428	369	399	412
Fluff and specialty paper pulp sales - thousand metric tons (8)	344	362	352	367	381
Production as a percent of capacity	99%	94%	85%	95%	97%

- (1) Includes a \$180 million (\$115 million after-tax) charge related to the disposition of the Grays Harbor Complex.
- (2) Includes a \$90 million special dividend paid to ITT.
- (3) EBITDA is defined as earnings from continuing operations before non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization.
- (4) EBIT is defined as earnings from continuing operations before non-recurring items, provision for dispositions, interest expense and income taxes.
- (5) 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.
- (6) Based on operating income before provision for dispositions.
- (7) Based on income (loss) from continuing operations.
- (8) Excludes wood pulp sales by the Grays Harbor pulp mill of 62 thousand and 77 thousand metric tons for the years ended December 31, 1992 and 1991, respectively.

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

SEGMENT INFORMATION

The amounts and relative contributions to sales and operating income attributable to each of Rayonier's business segments for each of the three years ended December 31, 1995 were as follows (in millions of dollars):

SALES	Year Ended December 31		
	1995	1994	1993
<b>TIMBER AND WOOD PRODUCTS</b>			
Log trading and merchandising	\$ 393	\$ 347	\$334
Timberlands management and stumpage	168	173	120
Wood products	75	79	47
Intrasegment eliminations	(18)	(21)	(16)
Total Timber and Wood Products	618	578	485
<b>SPECIALTY PULP PRODUCTS</b>			
Chemical cellulose	379	307	279
Fluff and specialty paper pulps	283	193	183
Total Specialty Pulp Products	662	500	462
Intersegment eliminations	(20)	(9)	(11)
Total sales	\$1,260	\$1,069	\$936
<b>OPERATING INCOME</b>			
Timber and Wood Products	\$ 141	\$ 163	\$144
Specialty Pulp Products	105	13	(4)
Corporate and other	(12)	(8)	(8)
Intersegment eliminations	-	1	(2)
Total before dispositions	234	169	130
Dispositions	-	-	(3)
Total operating income	\$ 234	\$ 169	\$127

CHANGE IN OWNERSHIP

On February 28, 1994, ITT Industries Inc. (ITT), formerly known as ITT Corporation, distributed all outstanding Common Shares of Rayonier to ITT stockholders, resulting in Rayonier becoming an independent, publicly held company.

BUSINESS CONDITIONS

Rayonier's 1995 net income of \$142 million, or \$4.75 per Common Share, was more than double its 1994 net income of \$70 million, or \$2.36 per Common Share. Excluding a non-recurring gain on a New Zealand timberland sale, earnings were \$118 million, or \$3.95 per Common Share. The favorable 1995 results were attributable to a strong market for Specialty Pulp Products and favorable Southeast U.S. stumpage prices.

Rayonier's operating results are primarily driven by international economic factors. In 1995, almost 60 percent of Rayonier sales were made to customers outside the United States. In 1994 and 1995, strengthening economies in North America and Europe resulted in increased demand and significantly higher prices for the Company's specialty pulp products. Stronger domestic pulp and paper markets in turn resulted in higher prices for the Company's Southeast U.S. stumpage. However, a stagnant Japanese economy and a stronger U.S. dollar led to soft markets for Northwest U.S. stumpage and New Zealand logs.

The Company's operating results are cyclical, particularly for Specialty Pulp Products. In 1994, Specialty Pulp Products began to emerge from a four-year down-turn characterized by weak worldwide demand and excess capacity for pulp products. Demand continued to strengthen in 1995 and Rayonier realized significant price increases for all of its specialty pulp products. The prices of Rayonier's pulp products generally begin to rise midway through the business cycle and lag commodity pulp price increases by up to a year. An industry-wide near-term inventory correction beginning in the fourth quarter of 1995 resulted in a reduction in fluff pulp prices from earlier high levels, as well as a reduction in Southeast U.S. stumpage prices. That trend is expected to continue into 1996. However, price increases implemented in the first quarter of 1996 for chemical cellulose products are expected to offset some of those effects in the first half of the year.

Rayonier plans to increase capital spending through expansion of its New Zealand operations, acquisitions and growth in the Timber and Wood Products businesses, and quality and productivity improvements in Specialty Pulp Products. 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.

In 1985, Rayonier transferred substantially all of its U.S. timberlands business to Rayonier Timberlands, L.P. (RTLPL), a master limited partnership. Under the terms of the RTLPL Partnership Agreement, minority unitholders currently share approximately 24 percent of the partnership's profits. The minority interest in RTLPL's earnings was \$30 million in 1995, \$32 million in 1994 and \$23 million in 1993, reducing Rayonier's net income by 63 cents per share in 1995, 69 cents per share in 1994 and 48 cents per share in 1993. Effective January 1, 2001, the minority participation in the earnings of RTLPL will be reduced from approximately 24 percent to approximately 1 percent and Rayonier's participation will increase from 76 percent to 99 percent.

In 1992, Rayonier permanently closed the operations at its Grays Harbor, Washington, pulp and paper complex. The Company's two remaining sulfite pulp mills in Port Angeles, Washington, and Fernandina Beach, Florida, face margin pressure. The Port Angeles mill, in particular, incurs significantly higher wood costs than facilities in other parts of the world. The viability of these facilities will be dependent upon the strength of pulp markets, favorable resolution of environmental issues and, for the Port Angeles mill, the return of Northwest U.S. wood costs to a more competitive level. If the recent softening in pulp markets continues, if pending environmental issues are not resolved favorably or, in the case of Port Angeles, if wood costs do not become more competitive, Rayonier may consider alternatives to operating the mills, including restructuring or closure. At December 31, 1995, the net plant and equipment invested at Port Angeles and Fernandina Beach totaled \$87 million and \$140 million, respectively.

#### RESULTS OF OPERATIONS, 1995 VS. 1994

##### Sales and Operating Income

Sales rose 18 percent to \$1.26 billion in 1995, reflecting stronger pulp selling prices and log sales volumes. Operating income for the year was \$234 million, up 38 percent from 1994.

##### Timber and Wood Products

Sales of Timber and Wood Products rose 7 percent to \$618 million, while operating income declined 13 percent to \$141 million. The sales improvement came in log trading and merchandising volume sold to Pacific Rim markets. Operating income declined primarily due to lower margins on wood products as a result of lower lumber prices and higher log costs. The favorable effects of increased income from log trading volume and higher Southeast U.S. stumpage prices were offset by lower volume and margins from Northwest U.S. stumpage sales.

Log trading and merchandising sales, which include the Company's New Zealand log sales, increased in 1995 due to higher volumes in both the U.S. and New Zealand. In the U.S., slightly lower export prices were more than offset by increased export volume. In New Zealand strong domestic demand resulted in improved operating results despite higher operating costs caused by appreciation of the New Zealand dollar.

Timberlands management and stumpage sales and margins were down in 1995, as higher Southeast U.S. prices were more than offset by lower Northwest U.S. prices and volume. In the Southeast U.S., increased demand from the pulp and paper industry resulted in improved stumpage prices. Overall harvest volume was relatively flat, in line with the Company's harvest planning targets. In the Northwest U.S., weak export log markets resulted in a decline in contract prices and lower customer harvest activity.



In 1995, lumber prices declined due to reduced domestic construction activity and higher imports of lumber from Canada. Also in 1995, wood costs increased significantly, driven by competitive demand from the pulp and paper industry. As a result, wood products sales and operating margins declined from 1994.

#### Specialty Pulp Products

Sales of Specialty Pulp Products rose \$162 million to \$662 million, up 32 percent, and operating income rose \$92 million to \$105 million. The gains resulted from higher sales prices for both fluff and chemical cellulose pulp products. In addition, operating rates for the Company's three pulp mills improved over 1994. These gains were partially offset by higher wood and chemical costs.

In 1995, the Company took several steps to enhance the competitiveness of the Specialty Pulp Products segment. In the third quarter, the Company announced the relocation of its pulp research facility from Shelton, Washington, to a new \$10 million research facility at Jesup, Georgia, and its pulp marketing group from Stamford, Connecticut, to Jesup, Georgia. In the fourth quarter, the Company recorded a charge of \$5 million related to closing its woodyard operations at the Jesup, Georgia, pulp mill as part of an ongoing program to reduce costs.

#### Other Items

In September 1995, the Company completed the sale of a majority interest in approximately 9 percent of its New Zealand timber holdings to a timber investment fund, which entered into a joint venture with the Company. Proceeds were used to reduce debt. The transaction resulted in a non-recurring pretax gain of \$35 million, \$24 million after-tax, or \$0.80 per Common Share. Rayonier will manage the joint venture, which involves 23,000 acres of timber on New Zealand's North Island. The timber in the joint venture is located apart from most of the Company's forests and the Company believes that it can be better managed as a separate unit.

Interest expense for 1995 increased \$3 million to \$34 million as a result of higher average short-term interest rates, which more than offset the benefits of a lower average debt level.

Minority interest in the earnings of RTLP decreased \$3 million to \$30 million in 1995 due to lower partnership earnings resulting primarily from lower Northwest U.S. volume and prices partly offset by higher selling prices for Southeast U.S. stumpage. The minority participation in the earnings of RTLP will change from approximately 24 percent to approximately 1 percent effective January 1, 2001.

#### Income Taxes

The 1995 effective tax rate of 31.6 percent was favorable to the 1994 rate of 35.2 percent. The improvement reflected benefits from reorganizations made following the spin-off from ITT as well as tax benefits on increased pulp export sales.

#### RESULTS OF OPERATIONS, 1994 VS. 1993

##### Sales and Operating Income

Sales rose 14 percent to \$1.07 billion in 1994, reflecting stronger sales volumes in each of the business segments. Operating income for the year was \$169 million, up 33 percent from 1993.

##### Timber and Wood Products

Sales of Timber and Wood Products increased 19 percent to \$578 million and operating income rose 13 percent to \$163 million. Sales and income rose primarily due to increased stumpage volume and improved prices in the Northwest U.S., as customers carried over higher-priced 1993 timber sales contracts into the first quarter of 1994.

Log trading and merchandising sales, which include the Company's New Zealand operations, increased due to higher volumes in the U.S. and New Zealand. Strong domestic markets in both countries partially offset a decline in log exports. Overall, margins were reduced by lower export prices and higher purchased log costs.

Timberlands management and stumpage sales and income were stronger due to the high-priced carryover volume in the Northwest U.S. and increased volume and prices in the Southeast U.S. Wood products sales and operating margins increased as a result of higher prices and a full year's contribution from the Swainsboro-Lumber City, Georgia, facility acquired late in 1993. Operating margins also were affected by increased wood costs in the Southeast U.S.

## Specialty Pulp Products

Sales of Specialty Pulp Products increased to \$500 million, up 8 percent, and operating income rose \$17 million to \$13 million. The gains resulted from higher sales volume and stronger fluff pulp prices in the second half of the year.

## Other Items

Interest expense increased as a result of the additional debt used to finance a \$90 million special dividend to ITT in late 1993 and to settle intercompany accounts with ITT prior to the spin-off.

Minority interest in the earnings of RTLP increased \$10 million to \$32 million in 1994 due to significantly higher partnership earnings resulting from increased stumpage volume and prices.

## Income Taxes

The 1994 effective tax rate of 35.2 percent was slightly favorable to 1993, which was affected by the remeasurement of deferred tax liabilities for a one percentage point increase in the corporate tax rate in 1993.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities in 1995 was \$213 million, up \$23 million from 1994. The favorable change was due to higher earnings, partially offset by increased working capital needed to sustain the higher level of economic activity. Cash from operating activities was primarily used to finance capital expenditures of \$143 million, increase common dividends to \$30 million and reduce borrowings by \$33 million.

Cash flow from operating activities in 1994 increased \$71 million to \$190 million. Cash from operating activities financed capital expenditures of \$101 million, an increase in long-term timber stumpage of \$24 million, common dividends of \$21 million, a special distribution of \$20 million to the minority unitholders of RTLP and debt reduction of \$15 million.

In 1995, EBITDA (defined as earnings from continuing operations before non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization) grew to \$303 million, or \$10.10 per share, up \$74 million from 1994. In 1994, EBITDA grew \$42 million to \$229 million or \$7.72 per share. Free cash flow (defined as income from continuing operations plus depreciation, depletion and amortization, deferred income taxes and changes in working capital, less custodial capital spending and prior-year dividend levels) increased \$17 million to \$107 million in 1995.

Debt in 1995 was reduced \$33 million to \$450 million, resulting in a year-end debt-to-total-capital ratio of 37 percent, down from 43 percent at December 31, 1994. In 1994, debt was reduced \$15 million and the debt-to-total-capital ratio strengthened 2 percent from 1993. The percentage of debt with fixed interest rates was 48 percent as of December 31, 1995, compared with 45 percent in 1994 and 44 percent in 1993. In addition, at December 31, 1995, the Company had outstanding interest rate swap agreements that effectively converted \$180 million of floating rate obligations to fixed rates ranging from 5.35 to 5.39 percent. The agreements commence in January 1996 and mature in 1997 and 1998.

The most restrictive long-term debt covenant in effect at December 31, 1995 provided that the ratio of total debt to EBITDA cannot exceed four to one. As of December 31, 1995, the ratio was less than two to one. In addition, \$440 million of retained earnings was unrestricted as to the payment of dividends.

Capital spending for the year of \$143 million represented a new high for the Company, but was lower than originally planned because of a permitting delay for the Company's planned New Zealand medium-density-fiberboard (MDF) facility. Rayonier expects to invest approximately \$395 million in capital projects during the two-year period 1996-1997, including \$125 million for the New Zealand MDF facility, which is scheduled for completion in 1997. Other capital projects include cost improvement and productivity programs at the Jesup, Georgia, pulp mill. 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 are used for direct borrowings and as support for \$115 million of outstanding commercial paper. As of December 31, 1995, Rayonier had \$185 million of available borrowings under its revolving credit facilities. In addition, the Company has on file with the Securities and Exchange Commission shelf registration statements to offer an additional \$141 million of new public debt securities.

The Company believes that internally generated funds, combined with available external financing, will enable it to fund capital expenditures, working capital and other liquidity needs for the foreseeable future.

#### DISPOSITIONS

In 1992, Rayonier provided \$180 million, pretax, for the loss on disposal of assets along with the costs for severance, demolition and other close-down items associated with the disposition of its interest in the Grays Harbor, Washington, pulp and paper complex. The Company has substantially completed all programs associated with this charge except for certain environmental remediation programs. In addition, in 1986, Rayonier discontinued the Southern Wood Piedmont Company (SWP) treated wood business. Although operations have ceased, SWP is involved in several environmental remediation programs and is in negotiations with various state and federal agencies regarding the scope and timing for remaining programs. Future environmental cost is dependent on the outcome of such negotiations and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Accordingly, although considerable progress on cleanup has been made, there is still uncertainty as to the timing and amount of future expenditures for completing environmental programs at Grays Harbor, the SWP sites and certain other non-operating locations.

Rayonier currently estimates that expenditures for environmental remediation during 1996-1997 will total approximately \$20 million, pretax. As of December 31, 1995, Rayonier had reserves of \$40 million for environmental obligations. The Company believes that any future changes in estimates, if necessary, will not materially affect its financial condition or results of operations.

#### 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 ten years. During 1995, 1994 and 1993, Rayonier spent approximately \$1 million, \$1 million and \$3 million, respectively, for capital projects related to environmental compliance for continuing operations. Rayonier expects to spend approximately \$32 million on such projects during the two-year period 1996-1997. However, federal environmental regulations governing air and water discharges that were proposed in 1993 may require further expenditures and, if finally enacted in their proposed form, would prevent the Company from meeting certain product quality specifications for substantially all of its chemical cellulose products and will increase the cost of making its remaining pulp products. Sales of chemical cellulose products accounted for approximately 30 percent of 1995 sales.

While these regulations would have a material adverse effect on operations if not changed, it will not be possible for Rayonier to determine the nature or costs of such effect until the regulations are issued in final form. Rayonier has developed order of magnitude estimates of the costs of complying with these regulations if they are modified to remove the technological requirements that would prevent the Company from manufacturing some of its products. These estimates indicate that with incremental capital expenditures of approximately \$115 million at Jesup, \$35 million at Fernandina Beach and \$40 million at Port Angeles, it could continue to manufacture the current product line. Such expenditures would most likely be incurred over several years and would not commence before 1997. Rayonier will, however, continue to argue, both individually and through an industry trade association, for modifying the proposed operating guidelines further to eliminate errors it believes the agency has made, and the Company will continue to explore new and revised operating and technical process alternatives in lieu of spending such funds. Rayonier cannot predict whether these efforts will be successful.

Over the past five 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 as a threatened species under the Endangered Species Act (ESA). These restrictions have caused RTLP to restructure and reschedule some of its harvest plans. The U.S. Fish and Wildlife Service has developed a proposed rule under the ESA to redefine protective measures for the northern spotted owl on private lands. This rule, as currently drafted, would reduce the harvest restrictions on private lands except within specified special emphasis areas, where restrictions would be increased. One proposed special emphasis area is on the Olympic Peninsula, where a significant portion of RTLP's Washington timberlands is located. Separately, the state of Washington Forest Practices Board is in the process of adopting new harvest regulations to protect the northern spotted owl and the marbled murrelet (also recently listed as a threatened species). The state Department of Natural Resources draft of this rule also provides for a special emphasis area to protect the northern spotted owl on the Olympic Peninsula, which would increase harvest restrictions on the Company's lands. Rayonier is unable at this time to predict the form in which the federal or

state rules will eventually be adopted. However, if either rule is adopted in the form proposed by the respective agencies, the result will be some reduction in the volume of timber available for harvest.

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

Rayonier was a wholly owned subsidiary of ITT Industries Inc. (ITT), formerly known as ITT Corporation, through February 28, 1994. On February 28, 1994, ITT distributed all of the Common Shares of Rayonier to the holders of ITT Common and Series N Preferred Stock in a spin-off. As a result of the spin-off, ITT has no ownership interest in Rayonier, and Rayonier is an independent public company.

Rayonier and ITT entered into certain agreements, described below, governing their relationship subsequent to the spin-off and providing for the allocation of tax and certain other liabilities and obligations arising from periods prior to the spin-off. Copies of the forms of such agreements were filed as exhibits to the 1993 Form 10-K, Annual Report. The following description summarizes the material terms of such agreements, but is qualified by reference to the texts of such agreements, which are incorporated herein by reference.

DISTRIBUTION AGREEMENT

ITT and Rayonier entered into the Distribution Agreement providing for, among other things, the principal corporate transactions required to effect the Distribution and other arrangements between Rayonier and ITT related to the spin-off. The Distribution Agreement provides for the retention by ITT of all liabilities relating to the business conducted by ITT or any subsidiary of ITT (excluding Rayonier and its subsidiaries) and the indemnification of Rayonier with respect to such liabilities. The Distribution Agreement also provides for the retention by Rayonier of all liabilities relating to the business conducted by Rayonier and its subsidiaries (including environmental liabilities) and the indemnification of ITT with respect to such liabilities.

The Distribution Agreement provides that neither ITT nor Rayonier will take any action that would jeopardize the intended tax consequences of the transaction. Specifically, each of ITT and Rayonier will maintain its status as a company engaged in the active conduct of a trade or business, as defined in Section 355(b) of the Internal Revenue Code of 1986, as amended, until February 28, 1996.

#### TAX ALLOCATION AGREEMENT

ITT and Rayonier entered into a Tax Allocation Agreement (the Tax Allocation Agreement) providing that Rayonier will pay its share of ITT's consolidated tax liability for the tax years Rayonier is included in ITT's consolidated Federal income tax return. The Agreement also provides for sharing of pre-closing state taxes where appropriate as well as certain other matters.

#### EMPLOYEE BENEFITS AGREEMENT

ITT and Rayonier entered into an Employee Benefit Services and Liability Agreement providing for the allocation of retirement, medical, disability and other employee welfare benefit plans between ITT and Rayonier.

#### ADMINISTRATIVE SERVICES AGREEMENT

For the purpose of an orderly transition following the spin-off, ITT and Rayonier entered into an Administrative Services Agreement pursuant to which, until December 31, 1995, ITT provided to Rayonier such corporate administrative services as Rayonier may request, and Rayonier provided to ITT similar services with respect to particular ITT subsidiaries which were formerly the management responsibility of Rayonier (the Administrative Services Agreement). The party which provided any such services was compensated by the other party.

#### CANADIAN ASSETS PURCHASE AGREEMENT

A subsidiary of ITT and a subsidiary of Rayonier entered into a Canadian Assets Purchase Agreement pursuant to which, on February 28, 1994 the ITT subsidiary sold to the Rayonier subsidiary certain assets located in Canada and owned by the ITT subsidiary which are used in the Canadian operations of Rayonier. The purchase price was equal to the net book value of the assets purchased, which approximated \$3.2 million.

#### DIRECTORS

Two current ITT Directors, Messrs. Rand V. Araskog and Paul G. Kirk, Jr. are also serving on the Board of Directors of Rayonier.

### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS OF 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, and D 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 1995.

## REPORT OF MANAGEMENT

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 written codes of conduct, policies and procedures 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.

## 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, 1995 and 1994, and for each of the three years in the period ended December 31, 1995, 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Stamford, Connecticut  
January 22, 1996

RAYONIER INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME

For the Three Years Ended December 31, 1995  
(Thousands of dollars, except per share data)

	1995 ----	1994 ----	1993 ----
Sales	\$1,260,492 -----	\$1,069,494 -----	\$ 936,310 -----
Costs and expenses			
Cost of sales	994,982	877,439	780,831
Selling and general expenses	37,043	28,697	28,275
Other operating (income) expenses, net	(5,210) -----	(5,989) -----	38 -----
	1,026,815 -----	900,147 -----	809,144 -----
Operating income	233,677	169,347	127,166
Interest expense	(33,615)	(31,065)	(23,368)
Interest and miscellaneous income, net	3,131	2,207	1,608
Minority interest	(29,897)	(32,419)	(22,508)
Non-recurring gain	34,763 -----	- -----	- -----
Income before income taxes	208,059	108,070	82,898
Provision for income taxes	(65,711) -----	(38,038) -----	(30,432) -----
Net income	\$ 142,348 =====	\$ 70,032 =====	\$ 52,466 =====
Net income per Common Share	\$4.75 =====	\$2.36 =====	\$1.77 =====

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, 1995 and 1994  
(Thousands of dollars)

ASSETS	1995	1994
	----	----
CURRENT ASSETS		
Cash and short-term investments	\$ 10,932	\$ 9,178
Accounts receivable, less allowance for doubtful accounts of \$4,420 and \$4,358	128,478	103,892
Inventories	170,078	119,739
Timber stumpage	49,464	47,338
Other current assets	15,412	12,692
Deferred income taxes	15,208	4,382
	-----	-----
Total current assets	389,572	297,221
OTHER ASSETS	47,239	42,462
TIMBER STUMPAGE	29,396	36,756
TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION	476,463	476,132
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment	1,292,059	1,202,484
Less - accumulated depreciation	586,796	530,857
	-----	-----
	705,263	671,627
	-----	-----
	\$1,647,933	\$1,524,198
	=====	=====

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, 1995 and 1994  
(Thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1995	1994
	----	----
CURRENT LIABILITIES		
Accounts payable	\$ 102,938	\$ 83,658
Bank loans and current maturities	3,040	302
Accrued taxes	9,941	7,676
Accrued payroll and benefits	26,554	20,043
Accrued interest	5,268	4,515
Other current liabilities	39,943	37,316
Current reserves for dispositions	16,047	25,370
	-----	-----
Total current liabilities	203,731	178,880
DEFERRED INCOME TAXES	160,574	127,638
LONG-TERM DEBT	446,696	482,920
NON-CURRENT RESERVES FOR DISPOSITIONS	23,542	33,348
OTHER NON-CURRENT LIABILITIES	25,204	23,695
MINORITY INTEREST	18,815	22,516
SHAREHOLDERS' EQUITY		
Common Shares, 60,000,000 shares authorized, 29,653,278 and 29,574,807 shares issued and outstanding	159,032	157,581
Retained earnings	610,339	497,620
	-----	-----
	769,371	655,201
	-----	-----
	\$1,647,933	\$1,524,198
	=====	=====

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

RAYONIER INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

For the Three Years Ended December 31, 1995  
(Thousands of dollars)

	1995	1994	1993
	----	----	----
Balance, beginning of year	\$ 497,620	\$ 448,878	\$ 518,252
Net income	142,348	70,032	52,466
Dividends to public shareholders	(29,629)	(21,290)	--
Dividends to ITT	--	--	(121,840)
	-----	-----	-----
Balance, end of year	\$ 610,339	\$ 497,620	\$ 448,878
	=====	=====	=====

STATEMENTS OF CONSOLIDATED COMMON SHARES

For the Three Years Ended December 31, 1995  
(Thousands of dollars, except for shares)

	Common Shares	
	-----	-----
	Shares	Amount
	-----	-----
Balance, January 1, 1993	29,565,392	\$ 157,426
	-----	-----
Balance, December 31, 1993	29,565,392	157,426
Common Shares issued under incentive stock plans	9,415	155
	-----	-----
Balance, December 31, 1994	29,574,807	157,581
Common Shares issued under incentive stock plans	78,471	1,451
	-----	-----
Balance, December 31, 1995	29,653,278	\$ 159,032
	=====	=====

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 Three Years Ended December 31, 1995

(Thousands of dollars)

	1995	1994	1993
	----	----	----
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 142,348	\$ 70,032	\$ 52,466
Non-cash items included in income			
Depreciation, depletion and amortization	95,988	90,200	78,272
Deferred income taxes	16,617	3,007	37,291
Disposition of New Zealand timber assets	9,440	--	--
Increase (decrease) in other non-current liabilities	1,509	7,954	(10,284)
Change in accounts receivable, inventories and accounts payable	(55,645)	8,499	(5,887)
(Increase) decrease in current timber stumpage	(2,126)	8,432	(15,226)
Increase (decrease) in accrued taxes	2,265	5,196	(2,883)
Change in reserves for dispositions	(4,933)	(5,221)	2,679
Other changes	7,171	1,633	(18,119)
	-----	-----	-----
Cash from operating activities	212,634	189,732	118,309
	-----	-----	-----
<b>INVESTING ACTIVITIES</b>			
Capital expenditures, net of sales and retirements of \$3,931, \$1,678 and \$167	(139,395)	(98,953)	(71,589)
Expenditures for dispositions, net of tax benefits of \$5,493, \$4,571 and \$10,318	(9,352)	(7,713)	(17,412)
Change in timber stumpage and other assets	3,232	(29,690)	(6,179)
	-----	-----	-----
Cash used for investing activities	(145,515)	(136,356)	(95,180)
	-----	-----	-----
<b>FINANCING ACTIVITIES</b>			
Issuance of debt	35,437	267,084	112,435
Repayments of debt	(68,923)	(282,003)	(17,698)
Dividends to ITT	--	--	(121,840)
Dividends to public shareholders	(29,629)	(21,290)	--
Issuance of Common Shares	1,451	155	--
Decrease in minority interest	(3,701)	(14,133)	(768)
	-----	-----	-----
Cash used for financing activities	(65,365)	(50,187)	(27,871)
	-----	-----	-----
<b>CASH AND SHORT-TERM INVESTMENTS</b>			
Increase (decrease) in cash and short-term investments	1,754	3,189	(4,742)
Balance, beginning of year	9,178	5,989	10,731
	-----	-----	-----
Balance, end of year	\$ 10,932	\$ 9,178	\$ 5,989
	=====	=====	=====
<b>Supplemental disclosures of cash flow information</b>			
Cash paid (received) during the year for:			
Interest	\$ 34,208	\$ 30,996	\$ 24,289
	=====	=====	=====
Income taxes, net of refunds	\$ 41,760	\$ 23,705	\$ (18,193)
	=====	=====	=====

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

On February 28, 1994, ITT Industries, Inc. (ITT), formerly known as ITT Corporation, distributed all outstanding Common Shares of Rayonier Inc. (Rayonier or the Company) to ITT stockholders, resulting in Rayonier becoming an independent, publicly held company.

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

## Specialty Pulp Products

Rayonier operates three pulp mills in the United States with an aggregate annual capacity of 826,000 metric tons. 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. Over half of Rayonier's pulp production is sold to export customers, primarily in Western Europe and the Far East.

The Company's two sulfite pulp mills in Port Angeles, Washington, and Fernandina Beach, Florida, face margin pressure. The Port Angeles mill, in particular, incurs significantly higher wood costs than facilities in other parts of the world. The viability of these facilities will be dependent upon the strength of pulp markets, favorable resolution of environmental issues and, for the Port Angeles mill, the return of Northwest U.S. wood costs to a more competitive level. If the recent softening in pulp markets continues, if pending environmental issues are not resolved favorably or, in the case of Port Angeles, if wood costs do not become more competitive, Rayonier may consider alternatives to operating the mills, including restructuring or closure. At December 31, 1995, the net plant and equipment invested at Port Angeles and Fernandina Beach totaled \$87,068 and \$140,497, respectively.

## Timber and Wood Products

The Company owns, buys and harvests timber stumpage, and purchases delivered logs, primarily in North America and New Zealand, for subsequent sale into export markets (primarily Japan, Korea and China), as well as to domestic lumber and pulp mills. Rayonier owns, leases or controls 1.47 million acres of timberland in the United States and New Zealand. Rayonier also operates three lumber manufacturing facilities that produce dimension and specialty lumber products for residential construction and industrial uses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Principles of Consolidation

The consolidated financial statements include the accounts of Rayonier and its subsidiaries. Minority interest represents public unitholders' proportionate share of the partners' capital of Rayonier's consolidated subsidiary, Rayonier Timberlands, L.P. (RTLPL). All significant intercompany balances and transactions are eliminated.

Certain reclassifications have been made to prior years' financial statements to conform to the current year's presentation.

## 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 original maturities of three months or less.

## Inventories

Inventories are valued at the lower of cost or market. The cost of pulp products is determined on the first-in, first-out (FIFO) basis. Timber and wood 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 Stumpage and Timber Cutting Contracts

Rayonier purchases timber stumpage for use in its log trading, pulp and wood products businesses. The purchases are classified as current assets for stumpage 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 stumpage 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 recoverable.

## 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 recoverable 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 amounted to \$1,346, \$194 and zero during 1995, 1994 and 1993, 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 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 \$8,442, \$7,477 and \$7,302 in 1995, 1994 and 1993, respectively.

## Income Taxes

Income taxes on foreign operations are provided based upon the statutory tax rates of the applicable foreign country. Additional U.S. income taxes have not been provided on approximately \$51,000 of undistributed foreign earnings as the Company intends to permanently reinvest such earnings in expanding foreign operations.

## Earnings per Common Share

Earnings per Common Share are determined based on the weighted average number of Common Shares and dilutive Common Shares outstanding during the period. Earnings per Common Share for 1993 and from January 1, 1994 to February 28, 1994 were computed based on the number of Rayonier Common Shares that were outstanding on February 28, 1994, the date of Rayonier's spin-off from ITT. Common stock equivalents were excluded from the 1993 computation due to immateriality. The number of Common Shares used in earnings per Common Share computations was 29,982,883, 29,697,054 and 29,565,392 for 1995, 1994 and 1993, 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 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 Interest and miscellaneous income, net.

## 3. UNUSUAL ITEMS

In September 1995, the Company completed the sale of a majority interest in approximately 9 percent of its New Zealand timber holdings to a timber investment fund, which entered into a joint venture with the Company. Proceeds were used to reduce debt. The transaction resulted in a non-recurring pretax gain of \$34,763, \$23,946 after-tax, or \$0.80 per Common Share. Rayonier will manage the joint venture, which involves 23,000 acres of timber on New Zealand's North Island.

## 4. RAYONIER TIMBERLANDS, L.P.

In 1985, Rayonier transferred substantially all of its U.S. timberlands business to Rayonier Timberlands, L.P., a master limited partnership, in exchange for 20 million Class A and 20 million Class B Depositary Units. Thereafter, Rayonier offered and sold 5.06 million Class A Units (25.3 percent) to the public. The Partnership Agreement provides that RTLP continues in existence until December 31, 2035, but that the Initial Term of the Partnership will end on December 31, 2000. Class A Units participate principally in the revenues and costs associated with RTLP's sales of timber through the Initial Term and to a significantly lesser extent in subsequent periods. RTLP's sales of timber after that date as well as cash flow associated with land management activities before and after that date are principally allocable to the Class B Units, all of which have been retained by Rayonier.

RTLP is included in these consolidated financial statements. The following table summarizes the sales and operating income of RTLP, for the three years ended December 31, 1995, by region.

	1995	1994	1993
	----	----	----
SALES			
Northwest U.S.	\$ 95,168	\$115,261	\$ 70,734
Southeast U.S.	65,100	51,260	45,313
	-----	-----	-----
	\$160,268	\$166,521	\$116,047
	=====	=====	=====
OPERATING INCOME			
Northwest U.S.	\$ 73,393	\$ 94,576	\$ 56,249
Southeast U.S.	51,693	39,157	33,457
Corporate and other	(1,778)	(1,724)	(2,308)
	-----	-----	-----
	\$123,308	\$132,009	\$ 87,398
	=====	=====	=====

The minority interest in RTLP's earnings was \$29,897, \$32,419 and \$22,508 in 1995, 1994 and 1993, respectively. This reduced Rayonier's net income by \$18,985, \$20,586 and \$14,293 in 1995, 1994 and 1993, respectively. Effective January 1, 2001, the minority participation in the earnings of RTLP will be reduced from approximately 24 percent to approximately 1 percent, and Rayonier's participation will increase from 76 percent to 99 percent.

## 5. INCOME TAXES

For periods prior to the February 28, 1994 spin-off, Rayonier computed its tax provision at statutory rates in accordance with tax-sharing arrangements with ITT. In 1993, the federal statutory corporate income tax rate was increased from 34 percent to 35 percent. As a result, the 1993 provision for income taxes included a charge of \$1,583 to remeasure the Company's deferred tax liability for the higher rate.

The provision for income taxes consists of the following:

	1995	1994	1993
	----	----	----
Current:			
U.S. federal	\$ 36,564	\$ 30,018	\$(18,530)
State and local	2,779	2,157	(1,216)
Foreign	4,258	(1,715)	2,569
	-----	-----	-----
	43,601	30,460	(17,177)
	-----	-----	-----
Deferred:			
U.S. federal	12,386	6,288	39,713
State and local	1,081	318	3,292
Foreign	8,643	972	4,604
	-----	-----	-----
	22,110	7,578	47,609
	-----	-----	-----
	\$ 65,711	\$ 38,038	\$ 30,432
	=====	=====	=====

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, 1995 and 1994 were related to the following principal timing differences:

	1995	1994
	----	----
Accelerated depreciation	\$(129,332)	\$(126,663)
Reserves for dispositions	14,450	16,700
All other, net	(30,484)	(13,293)
	-----	-----
	\$(145,366)	\$(123,256)
	=====	=====

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

	1995	1994	1993
	----	----	----
Income tax provision at U.S. statutory rate	\$ 72,821	\$ 37,825	\$ 29,014
State and local taxes, net of federal tax benefit	2,509	1,609	1,349
Foreign operations	(4,697)	(1,670)	(285)
Foreign sales corporations	(3,816)	(608)	(1,500)
Remeasurement of deferred tax liability	--	--	1,583
All other, net	(1,106)	882	271
	-----	-----	-----
Provision for income taxes	\$ 65,711	\$ 38,038	\$ 30,432
	=====	=====	=====

All other, net includes tax provision adjustments for permanent differences, tax credits and other items that are not individually significant.

## 6. INVENTORIES

Rayonier's inventories included the following at December 31, 1995 and 1994:

	1995	1994
	----	----
Finished goods	\$ 71,307	\$ 39,929
Work in process	25,681	18,221
Raw materials	44,350	34,022
Manufacturing and maintenance supplies	28,740	27,567
	-----	-----
	\$170,078	\$119,739
	=====	=====

## 7. RESERVES FOR DISPOSITIONS

In 1992, Rayonier provided \$180,000, pretax, for the loss on disposal of assets along with the costs for severance, demolition and other close-down items associated with the disposition of its interest in the Grays Harbor, Washington, pulp and paper complex. The Company has substantially completed all programs associated with this charge except for certain environmental remediation programs. In addition, in 1986, Rayonier discontinued the Southern Wood Piedmont Company (SWP) treated wood business. Although operations have ceased, SWP is involved in several environmental remediation programs and is in negotiations with various state and federal agencies regarding the scope and timing for remaining programs. Future environmental cost is dependent on the outcome of such negotiations and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Accordingly, although considerable progress on cleanup has been made, there is still uncertainty as to the timing and amount of future expenditures for completing environmental programs at Grays Harbor, the SWP sites and certain other non-operating locations.

As of December 31, 1995 and 1994, Rayonier had \$11,539 and \$11,401 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 for environmental remediation during 1996-1997 will total approximately \$20,000, pretax. As of December 31, 1995, Rayonier had reserves of \$39,589 for environmental obligations. The Company believes that any future changes in estimates, if necessary, will not materially affect its financial condition or results of operations.



## 8. DEBT

Rayonier's debt included the following at December 31, 1995 and 1994:

	1995	1994
	----	----
Short-term bank loans at a weighted average rate of 6.3%	\$ 18,816	\$ 84
Commercial paper at discount rates of 6.05% to 6.13%	115,000	100,000
Medium-term notes due 1996-1998 at variable interest rates	100,000	100,000
Medium-term notes due 1998-1999 at fixed interest rates of 5.84% to 6.16%	16,000	16,000
Variable rate revolving credit agreement due 1999	-	67,000
7.5% notes due 2002	110,000	110,000
Pollution control and industrial revenue bonds due 1996-2015 at fixed interest rates of 4.75% to 8.0%	89,275	89,345
All other	645	793
	-----	-----
Total debt	449,736	483,222
Less:		
Short-term bank loans	2,516	84
Current maturities	524	218
	-----	-----
Long-term debt	\$446,696	\$482,920
	=====	=====

Rayonier has revolving credit agreements with a group of banks that provide the Company with unsecured credit facilities totaling \$300,000 and expiring in 1996 and 2000. The revolving credit facilities are used for direct borrowings and as credit support for a commercial paper program. As of December 31, 1995, the Company had \$115,000 of outstanding commercial paper, no outstanding direct borrowings and \$185,000 of available borrowings under its revolving credit facilities.

On October 15, 1992, Rayonier issued \$110,000 of 7.5 percent notes due October 15, 2002 (the Notes). The Notes were issued pursuant to a registration statement, filed on Form S-3 effective September 29, 1992, which permitted the Company to issue up to \$250,000 in debt securities through public offerings. The Company used the net proceeds from the sale of the Notes to repay bank debt that was utilized as bridge financing for the purchase of forest assets in New Zealand. Subsequently, on April 5, 1993, the Company established a \$140,000 medium-term note program pursuant to the registration. During April 1993, \$16,000 of medium-term notes, maturing in 1998 and 1999, were issued under this program at fixed interest rates of 5.84 percent to 6.16 percent.

On March 29, 1994, the Company filed a shelf registration statement with the Securities and Exchange Commission on Form S-3 covering \$150,000 of new debt securities. The registration statement also served as a post-effective amendment to the 1992 registration statement, which, as amended, permitted Rayonier to offer up to \$174,000 of medium-term notes. On August 18, 1994, Rayonier issued \$100,000 of variable rate medium-term notes. An additional \$33,000 of medium-term notes were issued in 1995 to replace maturing notes. The notes outstanding as of December 31, 1995 mature in 1996, 1997 and 1998 and bear interest at a variable rate of three-month LIBOR plus 0.29 percent to 0.40 percent. As of December 31, 1995, the interest rates on the variable rate medium-term notes ranged from 6.10 percent to 6.34 percent. The proceeds of these notes were used to retire a variable rate term loan. In addition, through currently effective shelf registration statements filed with the Securities and Exchange Commission, Rayonier may offer up to \$141,000 of new public debt securities.

Required repayments of debt are as follows:

1996	\$ 3,040
1997	36,229
1998	36,342
1999	17,475
2000	166,720
2001-2015	189,930
	-----
	\$ 449,736
	=====

Medium-term notes, commercial paper and short-term bank loans totaling \$164,300 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, 1995 provided that the ratio of total debt to EBITDA not exceed four to one. As of December 31, 1995, the ratio was less than two to one. In addition, \$440,000 of retained earnings was unrestricted as to the payment of dividends.

#### 9. INTEREST RATE SWAP AGREEMENTS

Rayonier uses interest rate swap agreements to manage exposure to interest rate fluctuations. Outstanding agreements involve the exchange of floating rate interest payments for fixed 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.

In December 1995, the Company entered into interest rate swap agreements that effectively convert \$180,000 of floating rate obligations to fixed rates ranging from 5.35 to 5.39 percent. The agreements commence in January 1996 and mature during 1997 and 1998. Aggregate notional principal associated with these maturities is \$55,000 in 1997 and \$125,000 in 1998.

#### 10. SHAREHOLDERS' EQUITY

Dividends paid by Rayonier during 1995, 1994 and 1993 were \$29,629, \$21,290 and \$121,840, respectively. The 1993 amount includes a fourth quarter special dividend of \$90,000 that was paid to ITT pursuant to a recapitalization program.

#### 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 31, 1995 and 1994, the estimated fair values of Rayonier's financial instruments were as follows:

	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	-----	-----	-----	-----
Cash and short-term investments	\$ 10,932	\$ 10,932	\$ 9,178	\$ 9,178
Debt	449,736	464,999	483,222	473,722
Foreign currency contracts	(247)	(247)	--	--
Interest rate swap agreements	--	(460)	--	--

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 Contracts

The fair value of foreign currency contracts is based on dealer-quoted market prices of comparable instruments.

## 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.

## 12. 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. In 1995, the Company granted 6,000 restricted shares and 346,000 options under the plan. In 1994, 350,000 options were granted under this plan. In 1995 and 1994, 82,500 and 88,500 Common Shares, respectively, were reserved for contingent performance shares. The actual number of performance shares to be issued is dependent upon the Company's Total Shareholder Return, as defined, compared with a competitive peer group of 12 companies within the forest products industry. The Company recognized expense of \$2,338 and \$311 in 1995 and 1994, respectively, related to the 1994 plan.

During 1994, the Company also implemented a Substitute Stock Option Plan under which options to acquire 382,434 Common Shares of Rayonier were granted in substitution for canceled ITT options. The Rayonier options were granted at exercise prices of \$16.57 to \$31.35 per share, which maintained the same economic value to the option holders that they would have had under ITT's stock option plan.

Stock option activity is summarized as follows:

	Number of Shares -----	Option Price -----
Outstanding - December 31, 1993	---	---
Granted		
Substitute Stock Option Plan	382,434	\$16.57-31.35
1994 Incentive Stock Plan	350,000	\$28.88-31.00
Exercised	(9,415)	\$16.57
Canceled	(2,000)	\$28.88
	-----	-----
Outstanding - December 31, 1994	721,019	\$16.57-31.35
Granted		
1994 Incentive Stock Plan	346,000	\$30.00-33.50
Exercised	(72,471)	\$16.57-31.35
Canceled	(19,934)	\$28.88-31.35
	-----	-----
Outstanding - December 31, 1995	974,614 =====	\$16.57-33.50 =====
Exercisable - December 31, 1995	264,140 =====	\$16.57-31.35 =====

## 13. EMPLOYEE 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.

## Pension Plans

Rayonier has pension plans covering substantially all of its employees. The cost is borne by Rayonier. Certain plans are subject to union negotiation. Prior to March 1, 1994, Rayonier's salaried employees participated in the ITT Salaried Retirement Plan. The liability associated with employment under the ITT Salaried Retirement Plan was retained by ITT. Effective March 1, 1994, Rayonier established the Rayonier Investment and Savings Plan for Salaried Employees and the Rayonier Salaried Employees Retirement Plan. These plans, as well as health care, life insurance and other employee welfare benefits programs, which represent mirror-image plans to the various ITT welfare benefit programs previously available to salaried employees, are sponsored by Rayonier for the benefit of all salaried active employees as of March 1, 1994. There was no change in the status of the Rayonier benefit plans for hourly paid employees as a result of the spin-off.

The following table sets forth net periodic pension cost of Rayonier plans and total pension expense for the three years ended December 31:

	1995 ----	1994 ----	1993 ----
Defined Benefit Plans			
Service cost	\$ 4,022	\$ 4,152	\$ 1,567
Interest cost	6,348	5,666	5,573
Return on assets	(23,105)	(4,409)	(13,138)
Net amortization and deferral	15,463	(2,756)	6,276
	-----	-----	-----
Net periodic pension cost of Rayonier plans	2,728	2,653	278
Other Pension Cost			
Rayonier portion of ITT Salaried Retirement Plan	--	530	2,581
Defined contribution plans	1,872	1,581	1,459
	-----	-----	-----
Total pension expense	\$ 4,600	\$ 4,764	\$ 4,318
	=====	=====	=====

The following table sets forth the funded status of the Rayonier pension plans, the amounts recognized in the balance sheets of the Company at December 31, 1995 and 1994 and the principal weighted average assumptions inherent in their determination:

	1995 ----	1994 ----
Actuarial present value of benefit obligations		
Vested benefits	\$ 85,300	\$ 69,842
	=====	=====
Accumulated benefits	\$ 90,874	\$ 73,569
	=====	=====
Projected benefits	\$ 92,386	\$ 73,993
Plan assets at fair value	101,698	81,597
	-----	-----
Plan assets in excess of projected benefits	9,312	7,604
Unrecognized net (gain) loss	(3,336)	1,676
Unrecognized past service cost	7,460	5,139
Unrecognized net assets	(4,505)	(5,695)
	-----	-----
Prepaid pension asset	\$ 8,931	\$ 8,724
	=====	=====
Actuarial assumptions (%)		
Discount rate	7.50	8.50
Rate of return on invested assets	9.75	9.75
Salary increase assumption	5.00	5.00

## Postretirement Health and Life

Rayonier provides health care and life insurance benefits for certain employees upon retirement. A reserve of \$3,924 was transferred from ITT to Rayonier in 1994 to cover the postretirement benefit obligation for active employees as of March 1, 1994. The Company is not currently funding this obligation; however, it may fund some portions in the future if it can be accomplished on a tax-effective basis. The liability for employees retiring prior to March 1, 1994 was retained by ITT.



The following table sets forth postretirement health care and life insurance benefits expense for the three years ended December 31:

	1995	1994	1993
	----	----	----
Service cost	\$ 598	\$ 618	\$ 260
Interest cost	1,847	1,642	766
Net amortization and deferral	319	448	--
	-----	-----	-----
Net periodic expense of Rayonier plans	2,764	2,708	1,026
Rayonier portion of expense for			
ITT Plans for salaried employees	--	212	1,146
	-----	-----	-----
Total postretirement benefits expense	\$2,764	\$2,920	\$2,172
	=====	=====	=====

The following table sets forth the status of the Rayonier postretirement benefit plans other than pensions, the amounts recognized in the balance sheets of the Company at December 31, 1995 and 1994 and the principal weighted average assumptions inherent in their determination:

	1995	1994
	----	----
Accumulated postretirement benefit obligation	\$ 24,903	\$ 22,364
Unrecognized net loss	(8,111)	(7,214)
Unrecognized prior service cost	(173)	--
	-----	-----
Liability recognized in the balance sheet	\$ 16,619	\$ 15,150
	=====	=====
Actuarial assumptions (%)		
Discount rate	7.50	8.50
Ultimate health care trend rate	5.00	6.00

The assumed rate of future increases in the per capita cost of health care (the health care trend rate) was 10.0 percent for 1995, decreasing ratably to 5.0 percent in the year 2001. Increasing the table of health care trend rates by one percentage point per year would have the effect of increasing the accumulated postretirement benefit obligation by \$2,009 and the annual expense by \$232.

#### 14. COMMITMENTS

The Company leases certain buildings, machinery and equipment under various operating leases. As of December 31, 1995, minimum rental commitments under operating leases were \$4,903, \$4,468, \$2,146, \$1,660 and \$1,607 for 1996, 1997, 1998, 1999 and 2000, respectively. For the remaining years, such commitments amounted to \$6,225, aggregating total minimum lease payments of \$21,009. Total rental expense for operating leases amounted to \$7,373, \$6,068 and \$5,587 in 1995, 1994 and 1993, respectively. The Company has indirectly guaranteed approximately \$6,715 of debt that is secured by equipment used by two vendors to provide products to the Company.

#### 15. LEGAL PROCEEDINGS

Rayonier and SWP are named defendants in three pending civil cases arising out of former wood preserving operations at SWP's plant located in Augusta, Georgia, and one pending civil case arising out of such operations at SWP's plant in Macon, Georgia. In general, all of these cases seek recovery for property damage, personal injury or wrongful death based on the alleged exposure to toxic chemicals used by SWP in its former operations. Two of these cases are pending in the U.S. District Court for the Southern District of Georgia, one is pending in the U.S. District Court for the Middle District of Georgia and summary judgment in favor of Rayonier and SWP in the fourth case is now under appeal to the U.S. Court of Appeals for the 11th Circuit. One of the cases pending in District Court, Ernest Jordan v. Southern Wood Piedmont Co., et al., seeks damages in the amount of \$700,000 (\$200,000 in property damage and \$500,000 in punitive damages); the Court has disposed of the plaintiffs' claim of class action and, in response, the plaintiffs have amended their complaint by adding over 100 individual residents. Counsel for the Company believe that the Company has meritorious defenses in all these cases. Several previous lawsuits related to the Augusta and Macon facilities have either been dismissed or settled for amounts not material to the Company.

Rayonier has been named a Potentially Responsible Party (PRP) or is a defendant in actions being brought by a PRP in four proceedings instituted by the U.S. Environmental Protection Agency (EPA) under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) or state agencies under comparable state statutes. In three of these proceedings, Rayonier is considered a de minimis participant. In the other proceeding, the Company is not a de minimis participant because of the limited number of PRPs, and the Company believes that its share of liability for total clean-up costs will be less than \$3,000. In each case, Rayonier has established reserves for its estimated liability. Rayonier has also received requests for information from the EPA in connection with two other CERCLA sites, but the Company does not currently know to what extent, if at all, liability under CERCLA will be asserted against Rayonier with respect to either site.

On November 19, 1994, SWP was named one of six PRPs in the Tennessee Products Site CERCLA action. SWP was included in the action because of coal tar derivative deposits found in Chattanooga Creek, which is included as part of the Tennessee Products Site. Counsel for the Company believe that the site is geographically divisible and that SWP is not responsible for any clean-up costs upstream of its former plant site. Consequently, it is not yet clear what, if any, remediation will be required of SWP.

There are various other lawsuits pending against or affecting Rayonier and its subsidiaries, some of which involve claims for substantial sums. Rayonier's ultimate liability with respect to all pending actions is not expected to materially impact its consolidated financial position or results of operations.

#### 16. 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 ten years. Federal environmental regulations governing air and water discharges that were proposed in 1993 may require further expenditures and, if finally enacted in their proposed form, would prevent the Company from meeting certain product quality specifications for substantially all of its chemical cellulose products, and will increase the cost of making its remaining pulp products. Sales of chemical cellulose products accounted for approximately 30 percent of 1995 sales. While these regulations would have a material adverse effect on operations if not changed, it will not be possible for Rayonier to determine the nature or costs of such effect until the regulations are issued in final form.

Over the past five 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 as a threatened species under the Endangered Species Act (ESA). These restrictions have caused RTLP to restructure and reschedule some of its harvest plans. The U.S. Fish and Wildlife Service has developed a proposed rule under the ESA to redefine protective measures for the northern spotted owl on private lands. This rule, as currently drafted, would reduce the harvest restrictions on private lands except within specified special emphasis areas, where restrictions would be increased. One proposed special emphasis area is on the Olympic Peninsula, where a significant portion of RTLP's Washington timberlands is located. Separately, the state of Washington Forest Practices Board is in the process of adopting new harvest regulations to protect the northern spotted owl and the marbled murrelet (also recently listed as a threatened species). The state Department of Natural Resources draft of this rule also provides for a special emphasis area to protect the northern spotted owl on the Olympic Peninsula, which would increase harvest restrictions on the Company's lands. Rayonier is unable at this time to predict the form in which the federal or state rules will eventually be adopted. However, if either rule is adopted in the form proposed by the respective agencies, the result will be some reduction in the volume of timber available for harvest.

## 17. SEGMENT INFORMATION

Please refer to Items 6 and 7 where information regarding business segment sales and operating income is provided. Additional segment information for the three years ended December 31 is as follows (millions of dollars):

	Gross Plant Additions			Depreciation, Depletion and Amortization			Identifiable Assets		
	1995	1994	1993	1995	1994	1993	1995	1994	1993
Timber and Wood Products	\$ 72	\$ 42	\$ 30	\$ 26	\$ 25	\$ 21	\$ 737	\$ 685	\$ 649
Specialty Pulp Products	68	58	41	69	64	56	846	787	794
Corporate and other	3	1	1	1	1	1	49	37	31
Dispositions	--	--	--	--	--	--	16	15	14
Total	\$ 143	\$ 101	\$ 72	\$ 96	\$ 90	\$ 78	\$1,648	\$1,524	\$1,488

## Geographical Operating Information -- All Segments (millions of dollars)

	Sales			Operating Income			Identifiable Assets		
	1995	1994	1993	1995	1994	1993	1995	1994	1993
United States	\$ 1,126	\$ 945	\$ 839	\$ 222	\$ 160	\$ 103	\$ 1,393	\$ 1,291	\$ 1,261
New Zealand	106	98	93	13	12	27	237	222	226
All other	28	26	4	(1)	(3)	(3)	18	11	1
Total	\$ 1,260	\$ 1,069	\$ 936	\$ 234	\$ 169	\$ 127	\$ 1,648	\$ 1,524	\$ 1,488

## Export Sales -- All Segments (millions of dollars)

Sales of products produced in various countries for export to other countries consisted of the following:

Operating Location	Sales Destination	1995	1994	1993
United States	Asia Pacific	\$368	\$266	\$282
	Western Europe	146	108	109
	All other	102	68	62
		616	442	453
New Zealand	Asia Pacific	61	54	67
	Western Europe	--	--	4
	All other	3	7	2
		64	61	73
All other		14	20	4
Total		\$694	\$523	\$530

## 18. NEW ZEALAND - RELATED FOREIGN CURRENCY EXPOSURE AND RISK MANAGEMENT

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.



During 1995, Rayonier entered into forward exchange contracts to help mitigate the adverse impact of foreign currency fluctuations on the Company's New Zealand net currency exposure. To date, Rayonier's forward contracts were intended to cover anticipated operating needs and therefore did not "hedge" firm contracts or commitments in accordance with Statement of Financial Accounting Standards No. 52. As a result, the gains and losses on these contracts are included in income based on mark to market values at reporting dates. In 1995, the maximum foreign currency contracts outstanding at any point in time totaled \$59,470. At December 31, 1995, the Company held foreign currency contracts maturing through December 1996 totaling \$53,490.

The following summarizes the post-exchange rate after-tax contribution to Rayonier's net income from New Zealand operating income and related foreign exchange effects (millions of dollars):

	1995 ----	1994 ----	1993 ----
OPERATING INCOME ON A 1993 EXCHANGE RATE BASIS	\$ 18	\$ 14	\$ 27
Effect of exchange rate changes since 1993	(5)	(2)	-
	----	----	----
OPERATING INCOME AS REPORTED	13	12	27
Non-operating gain from foreign exchange contracts	1	-	-
Income taxes at statutory rates	(5)	(4)	(9)
After-tax effect of exchange rate changes on taxable income	2	2	-
	----	----	----
POST-EXCHANGE RATE AFTER-TAX CONTRIBUTION FROM OPERATING INCOME	\$ 11 =====	\$ 10 =====	\$ 18 =====
After-tax contribution of constant exchange rate operating income at statutory rates	\$ 12 =====	\$ 9 =====	\$ 18 =====

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, thereby normalizing the net income contribution of its New Zealand operations on a post-exchange rate basis 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.

19. QUARTERLY RESULTS FOR 1995 AND 1994 (UNAUDITED)  
(thousands of dollars, except per share amounts)

	Quarter Ended				Total Year -----
	March 31 -----	June 30 -----	Sept. 30 -----	Dec. 31 -----	
1995					
Sales	\$285,832	\$313,564	\$333,913	\$327,183	\$1,260,492
	=====	=====	=====	=====	=====
Operating income	\$ 54,844	\$ 53,691	\$ 61,357	\$ 63,785	\$ 233,677
	=====	=====	=====	=====	=====
Net income	\$ 25,149	\$ 26,338	\$ 57,038*	\$ 33,823	\$ 142,348
	=====	=====	=====	=====	=====
Earnings per Common Share	\$ .84	\$ .88	\$ 1.90*	\$ 1.13	\$ 4.75
	=====	=====	=====	=====	=====
1994					
Sales	\$257,727	\$250,770	\$286,006	\$274,991	\$1,069,494
	=====	=====	=====	=====	=====
Operating income	\$ 51,172	\$ 35,231	\$ 40,075	\$ 42,869	\$ 169,347
	=====	=====	=====	=====	=====
Net income	\$ 21,719	\$ 14,114	\$ 16,405	\$ 17,794	\$ 70,032
	=====	=====	=====	=====	=====
Earnings per Common Share	\$ .73	\$ .48	\$ .55	\$ .60	\$ 2.36
	=====	=====	=====	=====	=====

\*Includes a non-recurring pretax gain of \$34,763, \$23,946 after-tax, or \$0.80 per Common Share. See Note 3.

## 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 KENNETH P. JANETTE

-----  
Kenneth P. Janette  
Vice President and Corporate Controller

March 26, 1996

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 -----
* ----- Ronald M. Gross (Principal Executive Officer)	Chairman of the Board, President, Chief Executive Officer and Director	
GERALD J. POLLACK ----- Gerald J. Pollack (Principal Financial Officer)	Senior Vice President and Chief Financial Officer	March 26, 1996
KENNETH P. JANETTE ----- Kenneth P. Janette (Principal Accounting Officer)	Vice President and Corporate Controller	March 26, 1996
* ----- William J. Alley	Director	
* ----- Rand V. Araskog	Director	
* ----- Donald W. Griffin	Director	
* ----- Paul G. Kirk, Jr.	Director	
* ----- Katherine D. Ortega	Director	
* ----- Burnell R. Roberts	Director	
* ----- Nicholas L. Trivisonno	Director	
* ----- Gordon I. Ulmer	Director	
*By GERALD J. POLLACK ----- Attorney-In-Fact		March 26, 1996

## 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	Filed herewith
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	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	Administrative Services Agreement between ITT Corporation and Rayonier Inc.	Incorporated by reference to Exhibit 10.1 to the Registrant's December 31, 1993 Form 10-K
10.2	Employee Benefits Agreement between ITT Corporation and Rayonier Inc.	Incorporated by reference to Exhibit 10.2 to the Registrant's December 31, 1993 Form 10-K
10.3	Tax Allocation Agreement between ITT Corporation and Rayonier Inc.	Incorporated by reference to Exhibit 10.3 to the Registrant's December 31, 1993 Form 10-K
10.4	Canadian Assets Purchase Agreement between ITT Corporation and Rayonier Inc.	Incorporated by reference to Exhibit 10.4 to the Registrant's December 31, 1993 Form 10-K

## EXHIBIT INDEX

Exhibit No. -----	Description -----	Location -----
10.5	Rayonier 1994 Incentive Stock Plan	Incorporated by reference to Exhibit 4(c) to the Registrant's Registration Statement on Form S-8 (File No. 33-52445)
10.6	Rayonier Senior Executive Severance Pay Plan	Incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form 8-A dated December 15, 1993 (the Form 8-A)
10.7	Rayonier Investment and Savings Plan for Salaried Employees	Incorporated by reference to Exhibit 4(c) to the Registrant's Registration Statement on Form S-8 (File No. 33-52437)
10.8	Supplement to Rayonier Investment and Savings Plan for Salaried Employees including the First, Second, Third, Fourth and Fifth Amendments to the Rayonier Investment and Savings Plan for Salaried Employees	Incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-8 (File No. 33-65291)
10.9	Rayonier Salaried Employees Retirement Plan	Incorporated by reference to Exhibit 10.8 to the Form 8-A
10.10	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
10.11	Rayonier Inc. Excess Benefit Plan	Incorporated by reference to Exhibit 10.10 to the Registrant's December 31, 1993 Form 10-K
10.12	Rayonier Inc. Excess Savings and Deferred Compensation Plan	Filed herewith
10.13	Form of Rayonier Inc. Excess Savings and Deferred Compensation Plan Agreements	Filed herewith
10.14	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
10.15	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
10.16	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

## EXHIBIT INDEX

Exhibit No. -----	Description -----	Location -----
10.17	Form of Rayonier 1994 Incentive Stock Plan Restricted Share Award Agreement	Filed herewith
10.18	Form of Rayonier 1994 Incentive Stock Non-qualified Stock Option Award Agreement	Filed herewith
10.19	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)
10.20	Form of Rayonier Substitute Stock Option Award Agreements	Filed herewith
10.21	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
10.22	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
10.23	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

BYLAWS  
OF  
RAYONIER INC.

Effective February 16, 1996

## BYLAWS

OF

RAYONIER INC.

## ARTICLE 1 -- OFFICES

Section 1. Offices. The principal office of the Corporation shall be located at Stamford, Connecticut. The Corporation may have offices at such other places, either within or without the State of North Carolina, as the Board of Directors may from time to time determine.

## ARTICLE 2 -- MEETINGS OF SHAREHOLDERS

Section 1. Place of Meeting. Meetings of Shareholders shall be held at such places, either within or without the State of North Carolina, as shall be designated in the notice of the meeting.

Section 2. Annual Meeting. The annual meeting of Shareholders shall be held on such date and at such time as the Board of Directors shall determine each year in advance thereof, for the purpose of electing Directors of the Corporation and the transaction of such other business as may be a proper subject for action at the meeting.

Section 3. Special Meetings. Special meetings of the Shareholders shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 4. Notice of Meetings. At least 10 and no more than 60 days prior to any annual or special meeting of Shareholders, the Corporation shall notify Shareholders of the date, time and place of the meeting and, in the case of a special meeting or where otherwise required by the Articles of Incorporation or by law, shall briefly describe the purpose or purposes of the meeting. Only business within the purpose or purposes described in the notice may be conducted at a special meeting. Unless otherwise required by the Articles of Incorporation or by law, the Corporation shall be required to give notice only to Shareholders entitled to vote at the meeting. If an annual or special Shareholders' meeting is adjourned to a different date, time or place, notice thereof need not be given if the new date, time or place is announced at the meeting before adjournment. If a new record date for the adjourned meeting is fixed pursuant to Article 7, Section 5 hereof, notice of the adjourned meeting shall be given to persons who are Shareholders as of the new record date. If mailed, notice shall be deemed to be effective when deposited in the United States mail with postage thereon prepaid, correctly addressed to the Shareholder's address shown in the Corporation's current record of Shareholders.

Section 5. Quorum. Except as may be provided in the terms of a series of Preferred Stock, a majority of the votes entitled to be cast by a voting group on a matter, represented in person or by proxy at a meeting of Shareholders, shall constitute a quorum for that

voting group for any action on that matter, unless quorum requirements are otherwise fixed by a court of competent jurisdiction acting pursuant to Section 55-7-03 of the General Statutes of North Carolina. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and any adjournment thereof, unless a new record date is or must be set for the adjournment. Action may be taken by a voting group at any meeting at which a quorum of that voting group is represented, regardless of whether action is taken at that meeting by any other voting group. In the absence of a quorum at the opening of any meeting of Shareholders, such meeting may be adjourned from time to time by a vote of the majority of the shares voting on the motion to adjourn.

Section 6. Voting of Shares. Except as otherwise provided by the Articles of Incorporation or by law, each outstanding share of voting capital stock of the Corporation shall be entitled to one vote on each matter submitted to a vote at a meeting of the Shareholders. Action on a matter by a voting group for which a quorum is present is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the vote of a greater number is required by law, by the Articles of Incorporation, by rules of any exchange on which the voting group's stock is listed or by Section 55-10-03(c) of the North Carolina Business Corporation Act (the "NCBCA"). Voting on all matters shall be by ballot vote.

Section 7. Notice of Shareholder Proposal. For business proposed by a Shareholder (other than director nominations) to be a proper subject for action at an Annual Shareholders meeting, in addition to any requirement of law the Shareholder must timely request (by Certified Mail - Return Receipt Requested) that the proposal be included in the Corporation's proxy statement for the meeting, and such request must satisfy all of the provisions of Rule 14a-8 under the Securities Exchange Act of 1934, as amended.

Section 8. Postponement of Shareholders Meeting. A scheduled annual or special meeting of Shareholders may be postponed by the Board of Directors by public notice given at or prior to the time of the meeting.

#### ARTICLE 3 -- BOARD OF DIRECTORS

Section 1. General Powers. Except as otherwise expressly provided in the Articles of Incorporation or by law, the Board of Directors shall have the exclusive power and authority to direct the management of the business and affairs of the Corporation and shall exercise all corporate powers, and possess all authority, necessary or appropriate to carry out the intent of this provision, and which are customarily exercised by the board of directors of a public company.

Section 2. Number, Term and Qualification. The number, term and qualification of Directors of the Corporation shall be as provided in the Articles of Incorporation.

Section 3. Removal. Directors may be removed from office only for the reasons, if any, specified in the Articles of Incorporation.

Section 4. Vacancies. Vacancies occurring in the Board of Directors shall be filled only as provided in the Articles of Incorporation.



Section 5. Compensation. Compensation for the services of Directors as such shall be determined exclusively by the Board of Directors as provided in the Articles of Incorporation.

#### ARTICLE 4 -- MEETINGS OF DIRECTORS

Section 1. Annual and Regular Meetings. All annual and regular meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 3. Notice of Meetings. Unless the Board of Directors by resolution determines otherwise in accordance with authority set forth in the Articles of Incorporation, all meetings of the Board of Directors may be held without notice of the date, time, place or purpose of the meeting. The Secretary shall give such notice of any meetings called by the Board by such means of communication as may be specified by the Board.

Section 4. Quorum. The percentage of Directors in office specified in the Articles of Incorporation will constitute a quorum for the transaction of business at any meeting of the Board of Directors.

Section 5. Manner of Acting. A majority of Directors who are present at a meeting at which a quorum is present will constitute the required vote to effect any action taken by the Board of Directors.

Section 6. Action Without Meeting. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action must be evidenced by one or more written consents signed by each Director before or after such action, describing the action taken, and included in the minutes or filed with the corporate records. Action taken without a meeting is effective when the last Director signs the consent, unless the consent specifies a different effective date.

Section 7. Meeting by Communications Device. The Board of Directors may permit Directors to participate in any meeting of the Board of Directors by, or conduct the meeting through the use of, any means of communication by which all Directors participating may simultaneously hear each other during the meeting. A Director participating in a meeting by this means is deemed to be present in person at the meeting.

#### ARTICLE 5 -- COMMITTEES

Section 1. Election and Powers. The Board of Directors may have such committees, with such members who shall have such powers and authority as may be determined by the Board of Directors as provided by the Articles of Incorporation. To the extent specified

by the Board of Directors or in the Articles of Incorporation, each committee shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, except that no committee shall have authority to do the following:

- (a) Authorize distributions.
- (b) Approve or propose to Shareholders action required to be approved by Shareholders.
- (c) Fill vacancies on the Board of Directors or on any of its committees.
- (d) Amend the Articles of Incorporation.
- (e) Adopt, amend or repeal the bylaws.
- (f) Approve a plan of merger not requiring Shareholder approval.
- (g) Authorize or approve the reacquisition of shares, except according to a formula or method prescribed by the Board of Directors.
- (h) Authorize or approve the issuance, sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee (or a senior executive officer of the Corporation) to do so within limits specifically prescribed by the Board of Directors.

Section 2. Removal; Vacancies. Unless the Board of Directors by resolution determines otherwise in accordance with authority specified in the Articles of Incorporation, any member of a committee may be removed at any time exclusively by the Board of Directors with or without cause, and vacancies in the membership of a committee as a result of death, resignation, disqualification or removal shall be filled by a majority of the whole Board of Directors.

Section 3. Meetings. The provisions of Article 4 governing meetings of the Board of Directors, action without meeting, notice, waiver of notice and quorum and voting requirements shall apply to the committees of the Board and its members to the extent not otherwise prescribed by the Board in the resolution authorizing the establishment of the committee.

Section 4. Minutes. Each committee shall keep minutes of its proceedings and shall report thereon to the Board of Directors at or before the next meeting of the Board.

#### ARTICLE 6 -- OFFICERS

Section 1. Titles. Pursuant to authority conferred in the Articles of Incorporation, the Board of Directors shall have the exclusive power and authority to elect from time to time such officers of the Corporation, including a Chairman and a President (one of whom shall be the Chief Executive Officer), a Vice Chairman, one or more Executive Vice

Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Chief Financial Officer, a General Counsel, a Controller, a Treasurer, a Secretary, one or more Assistant Controllers, one or more Assistant Treasurers, and one or more Assistant Secretaries, and such other officers as shall be deemed necessary or desirable from time to time. The officers shall have the authority and perform the duties as set forth herein or as from time to time may be prescribed by the Board of Directors. Any two or more offices may be held by the same individual, but no officer may act in more than one capacity where action of two or more officers is required.

The officers of the Corporation may appoint one or more individuals to hold a position which includes one of the titles indicated above. An individual holding such title by virtue of being so appointed rather than by virtue of being elected to such position by the Board of Directors shall not be an officer of the Corporation for purposes of the Articles of Incorporation or these Bylaws, but such individual shall have such duties as may be prescribed by the officer or officers appointing him or her.

Section 2. Election; Removal. Pursuant to authority conferred in the Articles of Incorporation, the officers of the Corporation shall be elected exclusively by the Board of Directors and shall serve at the pleasure of the Board as specified at the time of their election, until their successors are elected and qualify, or until the earlier of their resignation or removal. Pursuant to authority conferred in the Articles of Incorporation, any officer may be removed by the Board at any time with or without cause.

Section 3. Compensation. Pursuant to authority conferred in the Articles of Incorporation, the compensation of the officers shall be fixed by the Board of Directors.

Section 4. General Powers of Officers. Except as may be otherwise provided in these bylaws or in the NCBCA, the Chairman, the Vice-Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the General Counsel, the Controller, the Treasurer, the Secretary, or any one of them, may (i) execute and deliver in the name of the Corporation, in the name of any division of the Corporation or in both names any agreement, contract, deed, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any division of the Corporation, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, deed, instrument, power of attorney or other document.

Section 5. Chief Executive Officer. The Chief Executive Officer of the Corporation shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board, the Chief Executive Officer shall manage the business and affairs of the Corporation and shall communicate to the Board and any committee thereof reports, proposals and recommendations for their respective consideration or action. He may do and perform all acts on behalf of the Corporation.

Section 6. Chairman. The Chairman shall preside at meetings of the Board of Directors and the Shareholders and shall have such other powers and perform such other duties as the Board may prescribe or as may be prescribed in these bylaws.

Section 7. Vice Chairman. The Vice Chairman shall have such powers and perform such duties as the Board or the Chairman (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 8. President. The President shall have such powers and perform such duties as the Board and the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 9. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. The Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have such powers and perform such duties as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 10. Chief Financial Officer. The Chief Financial Officer shall have such powers and perform such duties as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws. The Chief Financial Officer shall present to the Board such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may require and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Chief Financial Officer.

Section 11. Controller. The Controller shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Controller shall prepare such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer or the Chief Financial Officer (to the extent they are authorized by the Board of Directors to prescribe the authority and duties of other officers) may require, and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Controller.

Section 12. Treasurer.

(a) The Treasurer shall have the care and custody of all the funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board or by the Chairman, the Vice Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations).

(b) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations) may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), (i) may sign all receipts and vouchers for payments made to the Corporation; (ii) shall prepare a statement of the cash account of the Corporation to the Board as often as it shall require the same; and (iii) shall enter regularly in books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Treasurer.

Section 13. Secretary. The Secretary shall keep the minutes of all proceedings of the Shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these bylaws and as required by the laws of the State of North Carolina. The Secretary shall cause to be prepared and maintained (i) at the office of the Corporation a stock ledger containing the names and addresses of all Shareholders and the number of shares held by each and (ii) any list of Shareholders required by law to be prepared for any meeting of Shareholders. The Secretary shall be responsible for the custody of all stock books and of all unissued stock certificates. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation to such contracts, instruments and other documents requiring the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Secretary.

Section 14. Voting Upon Securities. Unless otherwise ordered by the Board of Directors, the Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President shall have full power and authority in behalf of the Corporation to attend, act and vote at meetings of the security holders of any entity in which this Corporation may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner, the Corporation might have possessed and exercised if present. The Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons.

Section 15. Continuing Determination by Board. All powers and duties of the officers shall be subject to a continuing determination by the Board of Directors.

## ARTICLE 7 -- CAPITAL STOCK

Section 1. Certificates. Unless the Board determines otherwise, shares of the capital stock of the Corporation shall be represented by certificates. The name and address of the persons to whom shares of capital stock of the Corporation are issued, with the number of shares and date of issue, shall be entered on the stock transfer records of the Corporation. Certificates for shares of the capital stock of the Corporation shall be in such form not inconsistent with the Articles of Incorporation of the Corporation as shall be approved by the Board of Directors. Each certificate shall be signed (either manually or by facsimile) by (a) the Chairman, the Vice Chairman, the President or any Vice President and by the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer or (b) any two officers designated by the Board of Directors. Each certificate may be sealed with the seal of the Corporation or a facsimile thereof.

Section 2. Transfer of Shares. Transfer of shares shall be made on the stock transfer records of the Corporation, and transfers shall be made only upon surrender of the certificate for the shares sought to be transferred by the record holder or by a duly authorized agent, transferee or legal representative. All certificates surrendered for transfer or reissue shall be canceled before new certificates for the shares shall be issued.

Section 3. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars of transfers and may require all stock certificates to be signed or countersigned by the transfer agent and registered by the registrar of transfers.

Section 4. Regulations. The Board of Directors may make rules and regulations as it deems expedient concerning the issue, transfer and registration of shares of capital stock of the Corporation.

Section 5. Fixing Record Date. For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders, or entitled to receive payment of any dividend, or in order to make a determination of Shareholders for any other purpose, the Board of Directors may fix in advance a date as the record date for the determination of Shareholders. The record date shall be not more than 70 days before the meeting or action requiring a determination of Shareholders. A determination of Shareholders entitled to notice of or to vote at a Shareholders' meeting shall be effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 6. Lost Certificates. The Board of Directors must authorize the issuance of a new certificate in place of a certificate claimed to have been lost, destroyed or wrongfully taken, upon receipt of (a) an affidavit from the person explaining the loss, destruction or wrongful taking, and (b) a bond from the claimant in a sum as the Corporation may reasonably direct to indemnify the Corporation against loss from any claim with respect to the certificate claimed to have been lost, destroyed or wrongfully taken. The Board of Directors may, in its discretion, waive the affidavit and bond and authorize the issuance of a new certificate in place of a certificate claimed to have been lost, destroyed or wrongfully taken.

## ARTICLE 8 -- GENERAL PROVISIONS

Section 1. Dividends and other Distributions. The Board of Directors may from time to time declare and the Corporation may pay dividends or make other distributions with respect to its outstanding shares in the manner and upon the terms and conditions provided by law.

Section 2. Seal. The seal of the Corporation shall be any form approved from time to time or at any time by the Board of Directors.

Section 3. Waiver of Notice. Whenever notice is required to be given to a Shareholder, director or other person under the provisions of these bylaws, the Articles of Incorporation or applicable law, a waiver in writing signed by the person or persons entitled to the notice, whether before or after the date and time stated in the notice, and delivered to the Corporation shall be equivalent to giving the notice.

Section 4. Depositories. The Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositories for the funds of the Corporation deposited in its name or that of a division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositories and signatories, with the same force and effect as if each such depository and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board; and each depository designated by the Board or by the Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation or of a division of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of the Division or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depository, or from time to time the fact of any change in any depository or in the signatories with respect thereto.

Section 5. Signatories. Unless otherwise designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer, all notes, drafts, checks, acceptances, orders for the payment of money shall be (a) signed by the Treasurer or any Assistant Treasurer and (b) countersigned by the Controller or any Assistant Controller, or either signed or countersigned by the Chairman, the Vice Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President in lieu of either the officers designated in (a) or the officers designated in (b) of this Section.

Section 6. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

Section 7. Amendments. These bylaws may be amended or repealed by the Board of Directors, including any bylaw adopted, amended or repealed by the Shareholders generally. These bylaws may be amended or repealed by the Shareholders even though the bylaws may also be amended or repealed by the Board of Directors.

RAYONIER INC. EXCESS SAVINGS  
AND DEFERRED COMPENSATION PLAN  
(Amended and Restated  
Effective September 1, 1995)



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## ARTICLE I. THE PLAN

## 1.1 ESTABLISHMENT OF THE PLAN

Rayonier Inc. heretofore established and presently maintains an unfunded supplemental retirement plan for eligible salaried Employees, effective as of March 1, 1994, known as the "Rayonier Inc. Excess Savings Plan" (hereinafter referred to as the "Plan"). Effective September 1, 1995, the Plan is amended and restated and shall be known as the "Rayonier Inc. Excess Savings and Deferred Compensation Plan".

## 1.2 PURPOSE

The Plan is intended to provide Employees with contributions lost due to restrictions on defined contribution plans under sections 401(a)(17), 401(k), 401(m), 402(g), and 415 of the Internal Revenue Code of 1986, as amended, which primarily affect higher-paid Employees. The intent is to provide these Employees with allocations under this Plan that, when added to such Employees' contributions under the Rayonier Investment and Savings Plan for Salaried Employees, will be similar to contributions other Employees can receive under such plan. Effective September 1, 1995, the Plan is amended to provide Employees with an opportunity to defer that portion of the Employee's Base Salary in excess of the qualified plan limitation under section 401(a)(17) of the Internal Revenue Code of 1986, as amended, which primarily impacts higher-paid Employees. The Plan is also intended to provide these Employees with the opportunity to defer all or any portion of bonus otherwise payable for a Plan Year. The Plan is intended to be an unfunded plan under the Employee Retirement Income Security Act of 1974, as amended, that is maintained for the purpose of providing deferred compensation for a select group of management or highly compensated Employees.

## ARTICLE II. DEFINITIONS

## 2.1 DEFINITIONS

Capitalized terms used in the Plan shall have the respective meanings set forth below:

- (a) "ACCOUNTS" shall mean a Participant's Excess Savings Account (comprised of an Excess Basic Savings Account, an Excess Matching Company Contribution Account, and an Excess Retirement Contribution Account), an Excess Base Salary Deferral Account, and a Bonus Deferral Account.
- (b) "BASE SALARY" shall mean an Employee's compensation from the Company at the Employee's base rate, determined prior to any election by the Participant pursuant to section 401(k) or 125 of the Code, excluding any overtime, bonus, foreign service allowance, or any other form of compensation.
- (c) "BASIC SAVINGS" shall have the meaning set forth in the Qualified Plan.
- (d) "BENEFICIARY" shall mean the person designated under section 4.10.
- (e) "BONUS DEFERRAL" shall mean the amount of annual bonus that the Participant elects to defer under section 4.3.
- (f) "BONUS DEFERRAL ACCOUNT" shall mean the account established for the Participant on the books of the Company under section 4.1.
- (g) "BONUS DEFERRAL AGREEMENT" shall mean a written agreement between the Company and the Participant to defer all or a portion of the Participant's annual bonus, as described in section 4.3.
- (h) "CHANGE OF CONTROL" shall mean any of the following events-3/4
  - (1) a report on Schedule 13D shall be filed with the Securities and Exchange Commission pursuant to section 13(d) of the Securities Exchange Act of 1934 (the "Act") disclosing that any person, other than Rayonier Inc. or an employee benefit plan sponsored by Rayonier Inc., is the beneficial owner (as the term is defined in Rule 13d-3 under the Act), directly or indirectly, of 20 percent or more of the total voting power represented by Rayonier Inc.'s then outstanding Voting Securities (calculated as provided in paragraph (d) of Rule 13d-3 under the Act in the case of rights to acquire Voting Securities); or
  - (2) any person, other than Rayonier Inc. or any employee benefit plan sponsored by Rayonier Inc., shall purchase shares pursuant to a tender offer or exchange offer to acquire any Voting Securities of Rayonier Inc. (or securities convertible into such Voting Securities) for cash, securities, or any other consideration, provided that after consummation of the offer, the person in

question is the beneficial owner, directly or indirectly, of 20 percent or more of the total voting power represented by Rayonier Inc.'s then outstanding Voting Securities (all as calculated under paragraph (1)); or

- (3) the stockholders of Rayonier Inc. shall approve
- (A) any consolidation or merger of Rayonier Inc. in which Rayonier Inc. is not the continuing or surviving corporation (other than a merger of Rayonier Inc. in which holders of common shares of Rayonier Inc. immediately prior to the merger have the same proportionate ownership of common shares of the surviving corporation immediately after the merger as immediately before), or pursuant to which common shares of Rayonier, Inc. would be converted into cash, securities, or other property; or
- (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of Rayonier Inc.; or
- (4) there shall have been a change in the composition of the Board of Directors of Rayonier Inc. at any time during any consecutive twenty-four month period such that "continuing directors" cease for any reason to constitute at least a 70 percent majority of the Board. For purposes of this paragraph (4), "continuing directors" means those members of the Board who either were directors at the beginning of such consecutive twenty-four month period or were elected by or on the nomination or recommendation of at least a 70 percent majority of the then existing Board.
- (i) "CODE" means the Internal Revenue Code of 1986, as amended.
- (j) "COMPANY" shall have the meaning set forth in the Qualified Plan.
- (k) "EMPLOYEE" shall have the meaning set forth in the Qualified Plan.
- (l) "EXCESS BASE SALARY" shall mean that portion of the Employee's Base Salary that exceeds the annual indexed dollar amount under section 401(a)(17) of the Code.
- (m) "EXCESS BASE SALARY DEFERRAL ACCOUNT" shall mean the account established for the Participant on the books of the Company under section 4.1.
- (n) "EXCESS BASE SALARY DEFERRAL AGREEMENT" means a written agreement between the Company and the Participant to defer all or a portion of the Participant's Excess Base Salary, as described in section 4.2(b).

- (o) "EXCESS BASE SALARY DEFERRALS" means the amount of Excess Base Salary that the Participant elects to defer, as described in section 4.2(b).
- (p) "EXCESS BASIC SAVINGS" means those amounts deferred by the Participant under section 4.2(a).
- (q) "EXCESS BASIC SAVINGS ACCOUNT" means an account established for the Participant on the books of the Company under section 4.1 to which the Participant's Excess Basic Savings are credited.
- (r) "EXCESS BASIC SAVINGS AGREEMENT" means a written agreement between the Company and the Participant to defer a portion of the Participant's Excess Base Salary, as described in section 4.2(a).
- (s) "EXCESS MATCHING COMPANY CONTRIBUTION" means the amount credited to the Participant under section 4.4.
- (t) "EXCESS MATCHING COMPANY CONTRIBUTION ACCOUNT" shall mean the account established for the Participant on the books of the Company under section 4.1.
- (u) "EXCESS RETIREMENT CONTRIBUTION" means the amount credited to the Participant under section 4.5.
- (v) "EXCESS RETIREMENT CONTRIBUTION ACCOUNT" shall mean the account established for the Participant on the books of the Company under section 4.1.
- (w) "EXCESS SAVINGS ACCOUNT" shall mean an account comprised of an Excess Basic Savings Account, an Excess Matching Company Contribution Account, and an Excess Retirement Contribution Account.
- (x) "MATCHING COMPANY CONTRIBUTION" shall have the meaning set forth in the Qualified Plan.
- (y) "PARTICIPANT" means an Employee who participates in the Plan pursuant to Article III.
- (z) "PLAN ADMINISTRATOR" means the entity described in Article VI.
- (aa) "PLAN YEAR" means the plan year of the Qualified Plan.
- (bb) "QUALIFIED PLAN" means the Rayonier Investment and Savings Plan for Salaried Employees, which is intended to be qualified under section 401(a) of the Code.
- (cc) "RETIREMENT CONTRIBUTION" shall have the meaning set forth in the Qualified Plan.
- (dd) "TERMINATION OF EMPLOYMENT" shall have the meaning set forth in the Qualified Plan.
- (ee) "VALUATION DATE" shall have the meaning set forth in the Qualified Plan.

## 2.2 GENDER AND NUMBER

Unless the context clearly requires otherwise, the masculine pronoun whenever used shall include the feminine and neuter pronoun, and the singular shall include the plural.

## ARTICLE III. PARTICIPATION

## 3.1 ELIGIBILITY

Each management Employee or highly compensated Employee who participates in the Qualified Plan and whose Base Salary exceeds the annual indexed dollar amount under section 401(a)(17) of the Code shall be eligible to participate in the Plan; provided, however, that an Employee shall be eligible to participate with respect to a Plan Year only if the Employee has made the maximum Basic Savings permitted under the terms of the Qualified Plan for such Plan Year.

## 3.2 COMMENCEMENT

Each Employee who is a Participant prior to the date of this amended and restated Plan shall continue to be a Participant on September 1, 1995. Each other Employee shall become a Participant on the first day of the month coincident with or next following the date he satisfies the eligibility requirements. Notwithstanding the foregoing, an Employee participating in the Plan in 1995 may execute an Excess Base Salary Deferral Agreement and/or a Bonus Deferral Agreement no later than September 1, 1995, with respect to Excess Base Salary payable for the remainder of 1995 and/or any bonus payable for 1995.

## 3.3 TERMINATION OF ELIGIBILITY

An individual shall cease to be a Participant as of the date such individual ceases to meet all of the requirements of section 3.1 above; provided however, that benefits accrued as of such date shall not be reduced and shall be paid as provided herein.



## ARTICLE IV. EXCESS SAVINGS AND CONTRIBUTIONS

## 4.1 ACCOUNTS

The Company shall establish and maintain as a bookkeeping entry an Excess Savings Account (with separate bookkeeping entries for the Excess Basic Savings Account, the Excess Matching Company Contribution Account, and the Excess Retirement Contribution Account), an Excess Base Salary Deferral Account, and a Bonus Deferral Account for each Participant. During each Plan Year, the Company shall credit to the appropriate Account the amounts described in this Article IV.

## 4.2 BASE SALARY

- (a) EXCESS BASIC SAVINGS. Each Employee described in section 3.1 may enter into an Excess Basic Savings Agreement with the Company under which the Participant elects to defer up to 6 percent of the Excess Base Salary that would otherwise be payable to him each payroll period during each subsequent Plan Year. Such election shall be irrevocable and shall remain in effect for such Plan Year and all subsequent Plan Years unless the Participant, prior to the beginning of a Plan Year, elects to revoke or amend the Excess Basic Savings Agreement. An Excess Basic Savings Agreement may be reinstated or amended prior to the beginning of any Plan Year for Excess Base Salary payable in that Plan Year. Notwithstanding the foregoing, an Employee who becomes eligible during a Plan Year to participate in the Plan may execute an Excess Basic Savings Agreement with respect to unearned Excess Base Salary within 30 days of becoming eligible. The Company shall credit the Excess Basic Savings to the Participant's Excess Basic Savings Account as of the payroll period to which the Excess Basic Savings relates.
- (b) EXCESS BASE SALARY DEFERRAL. Each Employee described in section 3.1 may enter into an Excess Base Salary Deferral Agreement with respect to any Plan Year in which Excess Base Salary is otherwise payable to the Employee. Prior to the beginning of such Plan Year, the Employee may elect to defer all or any portion (but not less than \$10,000) of such Excess Base Salary otherwise payable to him during such Plan Year; provided, however, that such deferral shall first be reduced by the amount of Excess Basic Savings contributed under section 4.2(a). Such Excess Base Salary Deferral Agreement shall remain in effect for such Plan Year and shall be irrevocable. Notwithstanding the foregoing, an Employee who becomes eligible during a Plan Year to participate may execute an Excess Base Salary

Deferral Agreement with respect to unearned Excess Base Salary within 30 days of becoming eligible. The Company shall credit the Excess Base Salary Deferral to the Participant's Excess Base Salary Deferral Account as of the payroll period to which the Excess Base Salary Deferral relates.

#### 4.3 BONUS DEFERRAL

An Employee described in section 3.1 may enter into a Bonus Deferral Agreement with the Company under which the Participant elects to defer all or any portion of any bonus (but not less than \$10,000) that would otherwise be payable to him during a Plan Year. Such Bonus Deferral Agreement shall be entered into by the Participant and the Company on or prior to the December 1 preceding the beginning of the Plan Year for which services are rendered with respect to the bonus, shall remain in effect for the Plan Year, and shall be irrevocable; provided, however, that an election with respect to any bonus payable in 1996 attributable to services rendered in 1995 shall be made no later than September 1, 1995. The Company shall credit the above amounts to the Participant's Bonus Deferral Account as of the payroll period to which the deferral relates.

#### 4.4 EXCESS MATCHING COMPANY CONTRIBUTION ACCOUNT

During each Plan Year, the Company shall credit to a Participant's Excess Matching Company Contribution Account an amount that is equal to 60 percent of Excess Basic Savings for that Plan Year, but in no event more than an amount equal to 3.6 percent of Excess Base Salary; provided, however that Excess Basic Savings prior to July 1, 1995 shall be credited with an amount that is equal to 50 percent of Excess Basic Savings (but in no event more than an amount equal to 3 percent of Excess Base Salary). The Excess Matching Company Contribution shall be credited to the Participant's Excess Matching Company Contribution Account as of the same date or dates that the Excess Basic Savings are allocated to the Participant's Excess Basic Savings Account.

#### 4.5 EXCESS RETIREMENT CONTRIBUTIONS

During each Plan Year, the Company shall credit to a Participant's Excess Retirement Contribution Account an amount that is equal to the difference between the amount in (a) and the amount in (b) where- $\frac{3}{4}$

- (a) is an amount equal to one-half of one percent of the Participant's Base Salary for the Plan Year, and

- (b) is an amount equal to the amount of the Retirement Contribution allocated to the Participant's Account for such Plan Year pursuant to the Qualified Plan.

The Excess Retirement Contribution shall be credited to the Participant's Excess Retirement Contribution Account as of the same date or dates that the Retirement Contribution under the Qualified Plan is actually allocated to the Participant's Account under the Qualified Plan.

#### 4.6 ADJUSTMENT TO ACCOUNTS

As of each Valuation Date, the Accounts of each Participant shall be credited or debited on the books of the Company with a gain or loss equal to the adjustment that would be made if assets equal to the Accounts had been invested in Fund C, as described in section 6.1 of the Qualified Plan, or in any successor to Fund C.

#### 4.7 VESTING

Except as provided in section 4.9, a Participant shall have a nonforfeitable right to amounts credited to the Participant's Accounts.

#### 4.8 DATE OF PAYMENT

A Participant's Excess Savings Account shall be payable upon the Participant's Termination of Employment. At the time the Participant executes the Excess Base Salary Deferral Agreement and the Bonus Deferral Agreement, the Participant shall designate the date upon which the amounts deferred under such agreements shall become payable. Such amounts may be made payable either before, after, or upon the Participant's Termination of Employment; provided, however, that, subject to the provisions of section 4.9, such election shall be irrevocable.

#### 4.9 FORM OF PAYMENT

- (a) EXCESS BASE SALARY AND BONUS DEFERRAL. At the time the Participant executes the Excess Base Salary Deferral Agreement and the Bonus Deferral Agreement, the Participant shall elect one of the following forms of payment for amounts credited to the Excess Base Salary Deferral Account and one of the following forms of payment for amounts credited to the Bonus Deferral Account:

- (1) LUMP SUM. The Participant shall receive a single sum cash payment equal to the amount credited to such Account.

- (2) **INSTALLMENTS.** The Participant shall receive the amount credited to such Account in equal annual installments payable over a period not exceeding 15 years. Earnings shall continue to be credited on the unpaid amounts.

In the event the Participant changes any of the foregoing elections prior to the date of payment or changes the time of payment elected under section 4.8, then, notwithstanding the provisions of section 4.7 and except as provided in section 4.11, the Participant shall forfeit 6 percent of the amount otherwise payable to the Participant under such election, and such forfeited amount shall cease to be an obligation of the Company and the Plan.

- (b) **EXCESS SAVINGS ACCOUNT.** Within 30 days after becoming a Participant, the Participant shall execute an Excess Basic Savings Agreement and elect one of the following forms of payment for amounts credited to the Excess Savings Account:

- (1) **LUMP SUM.** The Participant shall receive a single sum cash payment equal to the amount credited to the Excess Savings Account.
- (2) **INSTALLMENTS.** The Participant shall receive the amount credited to the Excess Savings Account in equal annual installments payable over a period not exceeding 15 years. Earnings shall continue to be credited on the unpaid amounts.

In the event the Participant changes the foregoing election prior to the date of payment, then, notwithstanding the provisions of section 4.7 and except as provided in section 4.11, the Participant shall forfeit 6 percent of the amount otherwise payable to the Participant under such election, such forfeited amount shall cease to be an obligation of the Company and the Plan, and no subsequent changes may be made by the Participant.

- (c) **PARTICIPANTS PRIOR TO SEPTEMBER 1, 1995.** A Participant in the Plan prior to September 1, 1995 shall make an election as to form of payment with respect to deferrals credited to his Accounts as of that date no later than September 1, 1995.

#### 4.10 DEATH BENEFITS

At the time the Participant executes the Excess Basic Savings Agreement, the Excess Savings Account election, the Excess Base Salary Deferral Agreement, and the Bonus Deferral Agreement, the Participant shall designate a Beneficiary to receive death benefits payable under this section 4.10. In the event of the death of the Participant prior to full payment of amounts credited to the Participant's Accounts, the unpaid amounts shall be paid as soon as practicable in a single sum cash payment to the

Beneficiary. If no Beneficiary is designated or if no Beneficiary survives the Participant, the Participant's surviving spouse or, in the case of an unmarried Participant, the designated Beneficiary under the Rayonier Salaried Life Insurance Plan shall be the Beneficiary. In the event that no spouse survives the Participant or, in the case of an unmarried Participant, that the life insurance benefits have been assigned or that no Beneficiary has been designated under the Rayonier Salaried Life Insurance Plan, the Beneficiary shall be the Participant's estate.

#### 4.11 HARDSHIP WITHDRAWALS

Notwithstanding the provisions of section 4.9, a Participant may, prior to the date payment of his Accounts is otherwise to be made, request a financial hardship withdrawal from any of his Accounts. A hardship withdrawal shall be available only upon a determination by the Company's Senior Vice President, Human Resources, that the Participant has suffered a severe and unanticipated emergency caused by an event that is beyond the control of the Participant. The amount of the withdrawal shall be limited to the amount necessary to satisfy the hardship. The Company's Senior Vice President, Human Resources, shall examine all relevant facts and circumstances to determine whether the Participant has a financial hardship and may require a Participant to submit any and all documentation that he deems necessary to substantiate the existence of a financial hardship.

#### 4.12 CHANGE OF CONTROL

Notwithstanding the provisions of sections 4.8 and 4.9, upon the occurrence of a Change of Control, a Participant shall receive a single sum cash payment equal to the amount credited to the Participant's Accounts.

## ARTICLE V. RIGHTS OF PARTICIPANTS

## 5.1 CONTRACTUAL OBLIGATION

It is intended that the Company is under a contractual obligation to make payments under this Plan when due. The benefits under this Plan shall be paid out of the general assets of the Company.

## 5.2 UNSECURED INTEREST

No special or separate fund shall be established and no segregation of assets shall be made to assure the payment of benefits hereunder. No Participant hereunder shall have any right, title, or interest whatsoever in any specific asset of the Company. Nothing contained in this Plan and no action taken pursuant to its provisions shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and a Participant or any other person. To the extent that any person acquires a right to receive payments under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

## ARTICLE VI. ADMINISTRATION

## 6.1 ADMINISTRATION

The Plan shall be administered by the Company as Plan Administrator. The Plan Administrator may appoint one or more individuals and delegate such of its powers and duties described herein as it deems desirable to any such individual, in which case every reference herein made to the Plan Administrator shall be deemed to mean or include the individuals as to matters within their jurisdiction; provided, however, that in the absence of any contrary appointment or delegation, the authority, powers, and duties herein shall be assigned to the Company's Senior Vice President, Human Resources. The Plan Administrator shall, in its sole discretion, be authorized to construe and interpret all provisions of the Plan, to adopt rules and practices concerning the administration of the same, and to make any determinations and calculations necessary or appropriate hereunder. The determination of the Plan Administrator as to any disputed question arising under this Plan, including questions of construction and interpretation, shall be final, binding, and conclusive on all persons.

## 6.2 INDEMNIFICATION

To the extent permitted by law, all agents and representatives of the Plan Administrator shall be indemnified by the Company and saved harmless against any claims, and the expenses of defending against such claims, resulting from any action or conduct relating to the administration of the Plan, except claims arising from gross negligence, willful neglect, or willful misconduct.

## 6.3 EXPENSES

The cost of benefit payments from this Plan and the expenses of administering the Plan shall be borne by the Company.

## 6.4 TAX WITHHOLDING

The Company may withhold from a payment any federal, state, or local taxes required by law to be withheld with respect to such payment and such sums as the Company may reasonably estimate are necessary to cover any taxes for which the Company may be liable and which may be assessed with regard to such payment.

## 6.5 CLAIMS PROCEDURE

- (a) SUBMISSION OF CLAIMS. Claims for benefits under the Plan shall be submitted in writing to the Plan Administrator or to an individual designated by the Plan Administrator for this purpose.
- (b) DENIAL OF CLAIM. If any claim for benefits is wholly or partially denied, the claimant shall be given written notice within 90 days following the date on which the claim is filed, which notice shall set forth-3/4
- (1) the specific reason or reasons for the denial;
  - (2) specific reference to pertinent Plan provisions on which the denial is based;
  - (3) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
  - (4) an explanation of the Plan's claim review procedure. If special circumstances require an extension of time for processing the claim, written notice of an extension shall be furnished to the claimant prior to the end of the initial period of 90 days following the date on which the claim is filed. Such an extension may not exceed a period of 90 days beyond the end of said initial period.

If the claim has not been granted, and if written notice of the denial of the claim is not furnished within 90 days following the date on which the claim is filed, the claim shall be deemed denied for the purpose of proceeding to the claim review procedure.

- (c) CLAIM REVIEW PROCEDURE. The claimant or his authorized representative shall have 60 days after receipt of written notification of denial of a claim to request a review of the denial by making written request to the Plan Administrator, and may review pertinent documents and submit issues and comments in writing within such 60-day period.

Not later than 60 days after receipt of the request for review, the Plan Administrator shall render and furnish to the claimant a written decision, which shall include specific reasons for the decision and shall make specific references to pertinent Plan provisions on which it is based. If special circumstances require an extension of time for processing, the decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review, provided that written notice and explanation of the delay are given to the claimant prior to commencement of the extension. Such decision by the Plan Administrator shall not be subject to further review. If a decision on review is not furnished to a claimant within the specified time period, the claim shall be deemed to have been denied on review.



- (d) EXHAUSTION OF REMEDY. No claimant shall institute any action or proceeding in any state or federal court of law or equity, or before any administrative tribunal or arbitrator, for a claim for benefits under the Plan, until the claimant has first exhausted the procedures set forth in this section.

## ARTICLE VII. MISCELLANEOUS

## 7.1 NONTRANSFERABILITY

In no event shall the Company make any payment under this Plan to any assignee or creditor of a Participant or of a Beneficiary, except as otherwise required by law. Prior to the time of a payment hereunder, a Participant or a Beneficiary shall have no rights by way of anticipation or otherwise to assign or otherwise dispose of any interest under this Plan, nor shall rights be assigned or transferred by operation of law.

## 7.2 RIGHTS AGAINST THE COMPANY

Neither the establishment of the Plan, nor any modification thereof, nor any payments hereunder, shall be construed to give any Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge the Participant at any time.

## 7.3 AMENDMENT OR TERMINATION

The Plan may be amended, modified, or terminated at any time by the Company except that, without the consent of any Participant or Beneficiary, if applicable, no such amendment, modification, or termination shall reduce or diminish such person's right to receive any benefit accrued hereunder prior to the date of such amendment, modification, or termination. Notice of such amendment, modification, or termination shall be given in writing to each Participant and Beneficiary of a deceased Participant having an interest in the Plan.

## 7.4 APPLICABLE LAW

This instrument shall be binding on all successors and assignees of the Company and shall be construed in accordance with and governed by the laws of the State of Connecticut, subject to the provisions of all applicable Federal laws.

7.5 ILLEGALITY OF PARTICULAR PROVISION

The illegality of any particular provision of this document shall not affect the other provisions, and the document shall be construed in all respects as if such invalid provision were omitted.

\* \* \* \* \*

IN WITNESS WHEREOF, Rayonier Inc. has caused this instrument to be executed, effective September 1, 1995, on this 29'th day of August, 1995.

RAYONIER, INC.

ATTEST:

By John P. O'Grady

By Mazie L. Williams

RAYONIER INC. EXCESS SAVINGS AND DEFERRED COMPENSATION PLAN ("THE PLAN")

7/95  
EXCESS SAVINGS ACCOUNT DISTRIBUTION ELECTION (DUE DATE )

NAME (Last, First, Middle Initial)

SOCIAL SECURITY NO. DATE OF BIRTH LOCATION  
/ /

Carefully review the contents of your enrollment package before completing this FORM.

Return the signed original to John P. O'Grady, Senior Vice President, Human Resources, Rayonier, 1177 Summer Street, Stamford, Connecticut 06905.

Keep a copy for your records. No Faxes.

Human Resources must receive your signed completed FORM on or before .

FORM OF DISTRIBUTION\*

I elect that my Excess Savings Account be paid in the following form:

Lump Sum  Annual Installments for \_\_\_\_\_ years (not to exceed 15)  
(Years)

BENEFICIARY DESIGNATION

I understand that if I die before the payment date I select, a lump sum payment will be made to my designated beneficiary(ies). I further understand that if I die after payments have commenced but before I receive the number of installment payments I select, the remaining payments will be made in a lump sum to my designated beneficiary(ies).

I understand that if no beneficiary is designated or no designated beneficiary survives me, if I am a married participant, the beneficiary will be my surviving spouse and, if I am an unmarried participant, the beneficiary will be as I have designated under the Rayonier Salaried Life Insurance Plan. However, if no such beneficiary has been designated or if such life insurance benefits have been assigned, the beneficiary will be my estate.

I further understand that I may change my beneficiary(ies) at any time.

I designate as my beneficiary(ies) the party(ies) listed below if such party(ies) is (are) living at the date of my death. (You may name a trust or estate.)

%	Name	Address	Social Security No.

I have read and agree to all of the provisions of the Rayonier Inc. Excess Savings and Deferred Compensation Plan as described in John P. O'Grady's letter of \_\_\_\_\_ and the accompanying Question & Answer Summary and I specifically understand the following:

1. My election is IRREVOCABLE.
2. This Plan is unfunded and my rights thereunder will be no greater than those of a general unsecured creditor of the Company.
3. My rights under the Plan are not assignable.

EMPLOYEE'S SIGNATURE DATE

WITNESS DATE

\* Subject to a 6% account balance penalty if changed for other than death, financial hardship or a Change in Control.

RAYONIER INC. EXCESS SAVINGS AND DEFERRED COMPENSATION PLAN ("THE PLAN")

7/95  
BONUS DEFERRAL AGREEMENT (DUE DATE )

NAME (Last, First, Middle Initial)

SOCIAL SECURITY NO. DATE OF BIRTH LOCATION

Carefully review the contents of your enrollment package before completing this AGREEMENT.

Return the signed original to John P. O'Grady, Senior Vice President, Human Resources, Rayonier, 1177 Summer Street, Stamford, Connecticut 06905.

Keep a copy for your records. No Faxes.

Human Resources must receive your signed completed AGREEMENT on or before , for you to participate in the Plan.

DEFERRAL ELECTION

I irrevocably elect to defer the following percentage or specific dollar amount of my bonus, otherwise payable in , provided that such percentage or dollar amount results in a deferral of at least \$10,000.

Table with 2 columns: DEFERRAL PERCENTAGE, SPECIFIED DOLLAR AMOUNT. Includes % and \$ symbols.

FORM AND TIMING OF DISTRIBUTION\*

I elect that my benefits under the Plan be paid in the following form:

[ ] Lump Sum [ ] Annual Installments for \_\_\_\_\_ years (not to exceed 15) (Years)

I elect that my benefits under the Plan be distributed or commenced as soon as practicable in (not earlier than ):

- [ ] The month and year of \_\_\_\_/\_\_\_\_
[ ] The month following my retirement
[ ] The month of \_\_\_\_ in the calendar year following the year of my retirement.

BENEFICIARY DESIGNATION

I understand that if I die before the payment date I select, a lump sum payment will be made to my designated beneficiary(ies). I further understand that if I die after payments have commenced but before I receive the number of installment payments I select, the remaining payments will be made in a lump sum to my designated beneficiary(ies).

I understand that if no beneficiary is designated or no designated beneficiary survives me, if I am a married participant, the beneficiary will be my surviving spouse and, if I am an unmarried participant, the beneficiary will be as I have designated under the Rayonier Salaried Life Insurance Plan. However, if no such beneficiary has been designated or if such life insurance benefits have been assigned, the beneficiary will be my estate.

I further understand that I may change my beneficiary(ies) at any time.

I designate as my beneficiary(ies) the party(ies) listed below if such party(ies) is (are) living at the date of my death. (You may name a trust or estate.)

Table with 4 columns: %, Name, Address, Social Security No.

I have read and agree to all of the provisions of the Rayonier Inc. Excess Savings and Deferred Compensation Plan as described in John P. O'Grady's letter of and the accompanying Question & Answer Summary and I specifically understand the following:

- 1. My deferral election is IRREVOCABLE.

2. This Plan is unfunded and my rights thereunder will be no greater than those of a general unsecured creditor of the Company.

3. My rights under the Plan are not assignable.

-----  
EMPLOYEE'S SIGNATURE DATE

-----  
WITNESS DATE  
=====

\* Subject to a 6% account balance penalty if changed for other than death, financial hardship or a Change in Control.

RAYONIER INC. EXCESS SAVINGS AND DEFERRED COMPENSATION PLAN ("THE PLAN")

7/95  
EXCESS BASE SALARY DEFERRAL AGREEMENT (DUE DATE )

NAME (Last, First, Middle Initial)

SOCIAL SECURITY NO. DATE OF BIRTH LOCATION

Carefully review the contents of your enrollment package before completing this AGREEMENT.

Return the signed original to John P. O'Grady, Senior Vice President, Human Resources, Rayonier, 1177 Summer Street, Stamford Connecticut 06905.

Keep a copy for your records. No Faxes.

Human Resources must receive your signed completed AGREEMENT for on or before Friday, December 1, 1995, for you to participate in the Plan.

DEFERRAL ELECTION

I irrevocably elect to defer the following percentage of my base salary in excess of \$150,000.

DEFERRAL PERCENTAGE Enter a minimum of 6.25% (\$10,000) to a maximum of 100%

FORM AND TIMING OF DISTRIBUTION\*

I elect that my benefits under the Plan be paid in the following form:

[ ] Lump Sum [ ] Annual Installments for years (not to exceed 15) (Number)

I elect that my benefits under the Plan be distributed or commenced as soon as practicable in (not earlier than ):

- [ ] The month and year of /
- [ ] The month following my retirement
- [ ] The month of in the calendar year following the year of my retirement.

BENEFICIARY DESIGNATION

I understand that if I die before the payment date I select, a lump sum payment will be made to my designated beneficiary(ies). I further understand that if I die after payments have commenced but before I receive the number of installment payments I select, the remaining payments will be made in a lump sum to my designated beneficiary(ies).

I understand that if no beneficiary is designated or no designated beneficiary survives me, if I am a married participant, the beneficiary will be my surviving spouse and, if I am an unmarried participant, the beneficiary will be as I have designated under the Rayonier Salaried Life Insurance Plan. However, if no such beneficiary has been designated or if such life insurance benefits have been assigned, the beneficiary will be my estate.

I further understand that I may change my beneficiary(ies) at any time.

I designate as my beneficiary(ies) the party(ies) listed below if such party(ies) is (are) living at the date of my death. (You may name a trust or estate.)

Table with 4 columns: %, Name, Address, Social Security No.

I have read and agree to all of the provisions of the Rayonier Inc. Excess Savings and Deferred Compensation Plan as described in John P. O'Grady's letter of and the accompanying Question & Answer Summary and I specifically understand the following:

- 1. My deferral election is IRREVOCABLE.
- 2. This Plan is unfunded and my rights thereunder will be no greater than those of a general unsecured creditor of the Company.

3. My rights under the Plan are not assignable.

-----  
EMPLOYEE'S SIGNATURE

DATE

-----  
WITNESS

DATE

=====

\* Subject to a 6% account balance penalty if changed for other than death,  
financial hardship or a Change in Control.



RAYONIER 1994 INCENTIVE STOCK PLAN  
RESTRICTED SHARE AWARD AGREEMENT

This Award Agreement is entered into by and between Rayonier Inc., a corporation organized under the laws of the State of North Carolina with its principal office at 1177 Summer Street, Stamford, Connecticut (the "Company"), and the undersigned qualified individual ("Key Employee"), pursuant to the Rayonier 1994 Incentive Stock Plan (the "Plan").

W I T N E S S E T H :

WHEREAS, the Compensation and Management Development Committee of the Company's Board of Directors, in its capacity as the Committee under the Plan (the "Committee"), desires to advance the best interests of the Company by recognizing the achievements of the Key Employee and his continued responsibilities and providing him with an additional incentive to remain in the employ of the Company;

WHEREAS, by Resolution dated December 8, 1995, the Committee has expressed an intention to grant to Key Employee Common Shares of the Company (the "Shares"), with such Shares to vest on January 2, 1999, provided he remains continuously employed by the Company from the date of this Award Agreement through the vesting date, subject to the provisions hereof and of the Plan; and

WHEREAS, this Award Agreement is being entered into to convey Award of the Shares to Key Employee.

NOW THEREFORE, in consideration of the mutual promises made herein, the parties agree as follows:

1. Definitions

All capitalized terms not expressly defined in this Award Agreement and used herein shall have the same meaning set forth in the Plan, a copy of which is attached hereto as Exhibit A.

2. Award of Shares; Vesting

(a) Key Employee is hereby awarded the number of Shares identified at Section 6 below, subject to the terms of this Award Agreement, effective January 2, 1996.

(b) Vesting. Key Employee shall become vested with respect to, and thereupon have a non-forfeitable right to, the Shares granted pursuant to Section 2(a) on January 2, 1999 (the "Vesting Date"), provided that Key Employee shall have remained continuously in the employ of the Company (or any Participating Company) from the date hereof through the Vesting Date.

(c) Termination of Employment. If Key Employee's employment is terminated for any reason before the Vesting Date, then all of the Shares subject to this Award Agreement shall immediately be forfeited to the Company, and Key Employee shall have no further rights to such Shares from and after the date of such termination.

(d) Committee Discretion; Death. Notwithstanding the Vesting Date, the Committee may, in its sole discretion, accelerate the time at which any or all of the Shares awarded hereunder shall vest if it deems such action appropriate. In the event of the death of Key Employee on or before the Vesting Date while Key Employee is employed by the Company (or any Participating Company), all of the Shares shall be deemed immediately vested.

### 3. Restricted Shares

(a) Sale; Exchange, etc. Key Employee acknowledges and agrees that prior to the Vesting Date the Shares are subject to a restriction against sale, exchange, hypothecation, assignment, transfer (including by gift), pledge or other encumbrance, without the prior written consent of the Committee, which consent shall require of the proposed transferee an undertaking to be bound by the terms of this Award Agreement, including the forfeiture upon the termination of the employment of Key Employee before the Vesting Date.

(b) Shareholder Rights. Subject to the vesting requirements provided for herein, Key Employee, as the owner of Shares granted hereunder, shall have all the rights of a shareholder, including but not limited to, the right to vote such Shares and, subject to Section 3(c) below, the right to receive all dividends declared or paid on such Shares.

(c) Dividends. All dividends paid on the Shares Granted to Key Employee under this Award Agreement, or on Shares issued as a dividend with respect to the Shares so granted, shall be withheld and accumulated by the Company until such time as Key Employee shall become vested with respect to the granted Shares. Upon the vesting of the Shares granted hereunder, the Company shall pay to Key Employee, within fifteen (15) days thereof, an amount equal to all dividends paid solely or partly in cash and accumulated with respect to the Shares then vesting, together with interest thereon at a rate equal to prime rate as reported in the Wall Street Journal, adjusted and compounded annually. With respect to dividends paid in the form of additional Shares, upon vesting of the Shares granted hereunder, the Company shall deliver to Key Employee certificates representing any such dividend Shares free of the legend described in Section 3(e).

Insofar as this Section 3(c) provides for payments to Key Employee in cash, this obligation shall be unfunded. Although bookkeeping accounts may be established with respect to Key Employee by virtue of the operations of this Section 3(c), any such accounts are merely a bookkeeping convenience. Any liability of the Company to Key Employee shall be based solely upon the contractual obligation arising under this Award Agreement.

(d) Withholding. Upon the vesting of the Shares, or at any other time when withholding is required under the Code, the Company shall have the right to require Key Employee to pay to the Company the amount of taxes that the Company is required to withhold or, in lieu thereof, to retain, or sell without notice, a sufficient number of Shares held by it for Key Employee to cover the amount required to be withheld. The Company may deduct from all dividends paid with respect to Shares granted hereunder the amount of taxes, if any, that the Company is required to withhold with respect to such dividend payments to Key Employee. The Key Employee may make an election to be taxed currently as of the effective date of this Agreement by timely filing an election under Section 83(b) of the Internal Revenue Code of 1986, as amended and providing the Company with a copy of said election.

(e) Escrowed Share Certificates; Legend. Each certificate in respect of Shares granted pursuant to this Award Agreement or paid in dividends on Shares so granted shall be registered in the name of Key Employee, but shall be retained by the Company on behalf of Key Employee, together with a stock power endorsed in blank, until such time as the Shares represented thereby have vested. Key Employee (and any consented-to transferee) shall execute such additional stock powers as may be required from time to time hereunder. All certificates representing the Shares shall bear the following legend:

"The transferability of this certificate and the Shares represented hereby are subject to terms and conditions, including forfeiture, contained in a Rayonier 1994 Incentive Stock Plan Restricted Share Award Agreement between the owner hereof and Rayonier Inc. Copies of such Award Agreement are on file in the office of the Secretary of Rayonier Inc., Stamford, Connecticut."

The certificates shall be maintained by the Secretary of the Company for safekeeping prior to the Vesting Date. Certificates for Shares shall be delivered to Key Employee, free of the legend described above, within fifteen (15) days after the Vesting Date.

(f) Acceleration Events. The restrictions applicable to the Award of Restricted Shares made pursuant to this Agreement shall lapse upon the occurrence of an Acceleration Event (as described in Section 9 of the Plan), and the Company shall issue stock certificates without a restrictive legend to Key Employee upon the occurrence of such an event.

If Key Employee shall hold Restricted Stock on the date of an Acceleration Event, Key Employee may tender such Restricted Stock to the Company, and the Company shall pay the Formula Price (as defined in Section 9 of the Plan); provided such Restricted Stock shall have been tendered to the Company within sixty (60) calendar days of the Acceleration Event.

(g) Reorganization. Except in the case of an Acceleration Event, in the event of any recapitalization, reclassification, split up or consolidation of Shares, or stock dividend, merger or consolidation of the Company or sale by the Company of all or a portion of its assets, the Committee may make such adjustments in the number of Shares, or the terms, conditions or restrictions on the Shares as the Committee deems equitable.

#### 4. Conformity with Securities Laws

The grant of Shares hereunder (and any transfers thereof) are subject to compliance with all applicable securities laws. Key Employee hereby represents to the Company that Key Employee is acquiring the Shares for investment and not with a view to the distribution thereof and that Key Employee has had full and complete access to the financial statements of the Company and to the Company's senior management. The certificates representing Shares issued by the Company pursuant to this Award Agreement may bear a legend describing the restrictions on resale thereof under applicable securities laws, and stop transfer orders with respect to such certificates may be entered in the stock transfer records of the Company.

#### 5. Miscellaneous

(a) Assignments and Transfers. The rights and interests of Key Employee under this Award Agreement may not be assigned, encumbered or transferred.

(b) No Right to Employment. Neither this Award Agreement nor any action taken hereunder shall be construed as giving Key Employee any right to be retained in the employ of any Participating Company.

(c) Applicable Law. The interpretation of the provisions hereof shall be governed by the laws of the State of Connecticut.

(d) Headings. The headings contained in this Award Agreement are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(e) Consistency with the Plan. This Award Agreement is subject to all the provisions of the Plan. It is expressly agreed and understood that in the case of any inconsistency between the provisions of this Award Agreement and the Plan, the provisions of the Plan shall control.

6. Number of Shares

The number of shares awarded hereunder, and subject to this Award Agreement, is.

IN WITNESS WHEREOF, the undersigned have caused this Award Agreement to be executed and delivered as of the 2nd day of January 1996.

RAYONIER INC.

-----  
John P. O'Grady  
Senior Vice President  
Administration

KEY EMPLOYEE

-----

Number: \_\_\_\_\_

RAYONIER 1994 INCENTIVE STOCK PLAN  
NON-QUALIFIED STOCK OPTION AWARD AGREEMENT  
(Form A -3-Year Vesting)

THIS AGREEMENT, made as of the 2nd day of January 1996, by and between Rayonier Inc. (the "Company") and the undersigned individual (the "Optionee"), pursuant to the Rayonier 1994 Incentive Stock Plan (the "Plan"). (Terms not defined herein have the same meaning as in the Plan.)

WHEREAS, the Optionee is a Key Employee of the Company and the Company through the Plan's Committee has approved the grant of Non-Qualified Stock Options under the Plan to the Optionee.

NOW, THEREFORE, in consideration of the Terms and Conditions of this Agreement and pursuant to the Plan, the parties agree as follows:

1. Grant of Options. The Company hereby grants to the Optionee the right and option to purchase from the Company, at the exercise price set forth in SECTION 3 below, all or any part of the aggregate number of common shares of the Company, as such Common Shares are presently constituted (the "Common Shares"), set forth in said SECTION 3.

2. Terms and Conditions. It is understood and agreed that the Option evidenced hereby is subject to the provisions of the Plan (which are incorporated herein by reference) and the following Terms and Conditions:

a. Expiration Date. The Option evidenced hereby shall expire on the date specified in Section 3 below.

b. Exercise of Option. The Option evidenced hereby shall be exercisable from time to time by submitting an appropriately completed "Notice of Exercise" form referred to below addressed as follows:

The Bank of New York  
Stock Option Administration  
101 Barclay, Street, 12W  
New York, New York 10286  
Telephone: 1-800-248-6905  
or send via fax to 1-800-815-2988

(1) Cash Only Exercise - submit a "Notice of Cash Exercise", together with the full cash exercise price (call 1-800-258-6905 to reach The Bank of New York Stock Option Help line); or

(2) Cashless Exercise - submit an "Irrevocable Letter of Instruction and Cashless Exercise and Sale Form" authorizing the delivery for sale of the exercised Common Shares (call 1-800-255-8282 to reach the BNY Personal Brokerage Help line); or

(3) Combination - tender a combination (1) and (2) above.

Withholding Taxes. Without regard to the method of exercise and payment, the Optionee shall pay to the Company, upon notice of the amount due, any withholding taxes payable with respect to such exercise.

Exercise Schedule - The Option granted hereby shall become exercisable only after one year of the Optionee's continuous employment with the Company immediately after the date of grant and may be exercised thereafter at any time, or from time to time, but only to the extent of one-third of the total number of shares covered by the Option under this Agreement after the first anniversary of such grant, only to the extent of two-thirds of such total number of shares after the second anniversary thereof, and in full only after the third anniversary thereof, and in any event only during the continuance of the Optionee's said employment.

c. Compliance with Laws and Regulations. The Option evidenced hereby is subject to restrictions imposed at any time on the exercise or delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable.

d. Interpretation. Optionee acknowledges that this Agreement is governed by the Plan, a copy of which Optionee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith, as may be adopted and amended from time by the Committee (the "Rules"). Optionee agrees to be bound by the terms and provisions of the Plan and the Rules, the terms of which are incorporated here in by reference.

e. Transfer Restrictions. In addition to the restrictions on transferability imposed by the Plan, this Option is not transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

3. Option Data

Optionee's Name

Number of Common Shares  
Subject to this Option

Exercise Price Per Share

Expiration Date

4. Governing Law. This Agreement is issued, and the Option evidenced hereby is granted, in Stamford, Connecticut, and shall be governed and construed in accordance with the laws of the State of Connecticut.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its authorized officer, the day and year first above written.

Agreed to: Rayonier Inc.

\_\_\_\_\_  
Optionee

By: \_\_\_\_\_  
John P. O'Grady  
Senior Vice President  
Administration

\_\_\_\_\_  
Date

## RAYONIER SUBSTITUTE STOCK OPTION PLAN

No: \_\_\_\_\_

STOCK OPTION AGREEMENT  
(Form A -- 3 Year Vesting)

THIS AGREEMENT, made as of the 21st day of March, 1994 by and between Rayonier Inc. (the "Company") and the undersigned individual (the "Optionee"), pursuant to the Rayonier Substitute Stock Option Plan (the "Plan"). (Terms not defined herein shall have the same meaning as in the Plan.)

WHEREAS, the Optionee is an Executive Employee of the Company and the Company through the Plan's Committee has approved the grant of Options under the Plan to the Optionee.

NOW, THEREFORE, in consideration of the terms and conditions of this Agreement and pursuant to the Plan, the parties agree as follows:

1. GRANT OF OPTIONS. The Company hereby grants to the Optionee the right and option to purchase from the Company, at the exercise price set forth on SECTION 3 below, all or any part of the aggregate number of common shares of the Company, as such Common Shares are presently constituted (the "Common Shares"), set forth on said SECTION 3 .
2. TERMS AND CONDITIONS. It is understood and agreed that the Option evidenced hereby is subject to the provisions of the Plan (which are incorporated herein by reference) and the following terms and conditions:
  - A. EXPIRATION DATE: The Option evidenced hereby shall expire on the date specified on SECTION 3 below.
  - B. EXERCISE OF OPTION: The Option evidenced hereby shall be exercisable from time to time by submitting an appropriately completed "Notice of Exercise" form referred to below addressed as follows:

The Bank of New York  
Stock Option Administration  
101 Barclay St., 12W  
New York, NY 10286  
or send via fax to 1-800-815-2988

- (1) CASH ONLY EXERCISE -- submitting a "Notice of Cash Exercise," call 1-800-258-6905 to reach The Bank of New York Stock Option Help line;
- (2) CASHLESS EXERCISE -- submitting an "Irrevocable Letter of Instruction" and Cashless Exercise and Sale Form" authorizing the delivery for sale of the exercised Common Shares, call 1-800-255-8282 to reach the BNY Personal Brokerage Help line;



- (3) COMBINATION -- tendering a combination (1) and (2) above.

WITHHOLDING TAXES. Without regard to the method of exercise and payment, the Optionee shall pay to the Company, upon notice of the amount due, any withholding taxes payable with respect to such exercise.

EXERCISE SCHEDULE. The Option granted hereby shall become exercisable only after one year of the Optionee's continuous employment with the Company and may be exercised thereafter at any time, or from time to time, but only to the extent of one-third of the total number of shares covered by the Option under this Agreement after the first anniversary of such employment, only to the extent of two-thirds of such total number of shares after the second anniversary thereof, and in full only after the third anniversary thereof, and in any event only during the continuance of the Optionee's said employment; provided that, the time during which the Optionee held an ITT Option shall be deemed continuous employment with the Company for this purpose. Notwithstanding the foregoing, this Option may not be exercised prior to the filing of a registration statement on Form S-8 with respect to the Common Shares subject to this Option.

- C. COMPLIANCE WITH LAWS AND REGULATIONS. The Option evidenced hereby are subject to restrictions imposed at any time on the exercise or delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable.
- D. INTERPRETATION. Optionee hereby acknowledges that this Agreement is governed by the Plan, a copy of which Optionee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith, as may be adopted and amended from time by the Committee (the "Rules"). Optionee agrees to be bound by the terms and provisions of the Plan and the Rules. The provisions of the Rayonier 1994 Incentive Stock Plan (the "Incentive Plan") applicable to non-qualified options thereunder shall apply for purposes of interpreting the provisions of this Agreement and the Plan, to the extent not inconsistent therewith. Optionee hereby acknowledges receiving a copy of the Incentive Plan.
- E. TRANSFER RESTRICTIONS. In addition to the restrictions on transferability imposed by the Plan and the Incentive Plan, this Option may not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

3. OPTION DATA.

Optionee's Name: \_\_\_\_\_

Number of Common Shares  
Subject to this Option: \_\_\_\_\_

Exercise Price Per Share: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

4. GOVERNING LAW. This Agreement is issued, and the Option evidenced hereby is granted, in Stamford, CT and shall be governed and construed in accordance with the laws of the State of Connecticut.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its authorized officer, as of the day and year first above written.

Agreed to: Rayonier Inc.

\_\_\_\_\_  
Optionee: By \_\_\_\_\_  
John P. O'Grady  
Senior Vice President  
Human Resources

Date: \_\_\_\_\_

## RAYONIER SUBSTITUTE STOCK OPTION PLAN

No: \_\_\_\_\_

STOCK OPTION AGREEMENT  
(Form B -- Immediate Vesting)

THIS AGREEMENT, made as of the 21st day of March, 1994 by and between Rayonier Inc. (the "Company") and the undersigned individual (the "Optionee"), pursuant to the Rayonier Substitute Stock Option Plan (the "Plan"). (Terms not defined herein shall have the same meaning as in the Plan.)

WHEREAS, the Optionee is an Executive Employee of the Company and the Company through the Plan's Committee has approved the grant of Options under the Plan to the Optionee.

NOW, THEREFORE, in consideration of the terms and conditions of this Agreement and pursuant to the Plan, the parties agree as follows:

1. GRANT OF OPTIONS. The Company hereby grants to the Optionee the right and option to purchase from the Company, at the exercise price set forth on SECTION 3 below, all or any part of the aggregate number of common shares of the Company, as such Common Shares are presently constituted (the "Common Shares"), set forth on said SECTION 3 .
2. TERMS AND CONDITIONS. It is understood and agreed that the Option evidenced hereby is subject to the provisions of the Plan (which are incorporated herein by reference) and the following terms and conditions:
  - A. EXPIRATION DATE: The Option evidenced hereby shall expire on the date specified on SECTION 3 below.
  - B. EXERCISE OF OPTION: The Option evidenced hereby shall be exercisable from time to time by submitting an appropriately completed "Notice of Exercise" form referred to below addressed as follows:

The Bank of New York  
Stock Option Administration  
101 Barclay St., 12W  
New York, NY 10286  
or send via fax to 1-800-815-2988

- (1) CASH ONLY EXERCISE -- submitting a "Notice of Cash Exercise," call 1-800-258-6905 to reach The Bank of New York Stock Option Help line;

- (2) CASHLESS EXERCISE -- submitting an "Irrevocable Letter of Instruction" and Cashless Exercise and Sale Form" authorizing the delivery for sale of the exercised Common Shares, call 1-800-255-8282 to reach the BNY Personal Brokerage Help line;
- (3) COMBINATION -- tendering a combination (1) and (2) above.

WITHHOLDING TAXES. Without regard to the method of exercise and payment, the Optionee shall pay to the Company, upon notice of the amount due, any withholding taxes payable with respect to such exercise.

EXERCISE SCHEDULE. The Option granted hereby shall become exercisable at the later of the date of execution of this Agreement and the date of the filing of a registration statement on Form S-8 with respect to the Common Shares subject to this Option.

- C. COMPLIANCE WITH LAWS AND REGULATIONS. The Option evidenced hereby are subject to restrictions imposed at any time on the exercise or delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable.
- D. INTERPRETATION. Optionee hereby acknowledges that this Agreement is governed by the Plan, a copy of which Optionee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith, as may be adopted and amended from time by the Committee (the "Rules"). Optionee agrees to be bound by the terms and provisions of the Plan and the Rules. The provisions of the Rayonier 1994 Incentive Stock Plan (the "Incentive Plan") applicable to non-qualified options thereunder shall apply for purposes of interpreting the provisions of this Agreement and the Plan, to the extent not inconsistent therewith. Optionee hereby acknowledges receiving a copy of the Incentive Plan.
- E. TRANSFER RESTRICTIONS. In addition to the restrictions on transferability imposed by the Plan and the Incentive Plan, this Option may not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

3. OPTION DATA.

Optionee's Name: \_\_\_\_\_

Number of Common Shares  
Subject to this Option: \_\_\_\_\_

Exercise Price Per Share: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

4. GOVERNING LAW. This Agreement is issued, and the Option evidenced hereby is granted, in Stamford, CT and shall be governed and construed in accordance with the laws of the State of Connecticut.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its authorized officer, as of the day and year first above written.

Agreed to: \_\_\_\_\_ Rayonier Inc.

\_\_\_\_\_  
Optionee: By \_\_\_\_\_  
John P. O'Grady  
Senior Vice President  
Human Resources

Date: \_\_\_\_\_

## RAYONIER SUBSTITUTE STOCK OPTION PLAN

No: \_\_\_\_\_

STOCK OPTION AGREEMENT  
(Form C -- 39/43 Vesting)

THIS AGREEMENT, made as of the 21st day of March, 1994 by and between Rayonier Inc. (the "Company") and the undersigned individual (the "Optionee"), pursuant to the Rayonier Substitute Stock Option Plan (the "Plan"). (Terms not defined herein shall have the same meaning as in the Plan.)

WHEREAS, the Optionee is an Executive Employee of the Company and the Company through the Plan's Committee has approved the grant of Options under the Plan to the Optionee.

NOW, THEREFORE, in consideration of the terms and conditions of this Agreement and pursuant to the Plan, the parties agree as follows:

1. GRANT OF OPTIONS. The Company hereby grants to the Optionee the right and option to purchase from the Company, at the exercise price set forth on SECTION 3 below, all or any part of the aggregate number of common shares of the Company, as such Common Shares are presently constituted (the "Common Shares"), set forth on said SECTION 3 .
2. TERMS AND CONDITIONS. It is understood and agreed that the Option evidenced hereby is subject to the provisions of the Plan (which are incorporated herein by reference) and the following terms and conditions:
  - A. EXPIRATION DATE: The Option evidenced hereby shall expire on the date specified on SECTION 3 below.
  - B. EXERCISE OF OPTION: The Option evidenced hereby shall be exercisable from time to time by submitting an appropriately completed "Notice of Exercise" form referred to below addressed as follows:

The Bank of New York  
Stock Option Administration  
101 Barclay St., 12W  
New York, NY 10286  
or send via fax to 1-800-815-2988

- (1) CASH ONLY EXERCISE -- submitting a "Notice of Cash Exercise," call 1-800-258-6905 to reach The Bank of New York Stock Option Help line;

- (2) CASHLESS EXERCISE -- submitting an "Irrevocable Letter of Instruction" and Cashless Exercise and Sale Form" authorizing the delivery for sale of the exercised Common Shares, call 1-800-255-8282 to reach the BNY Personal Brokerage Help line;
- (3) COMBINATION -- tendering a combination (1) and (2) above.

WITHHOLDING TAXES. Without regard to the method of exercise and payment, the Optionee shall pay to the Company, upon notice of the amount due, any withholding taxes payable with respect to such exercise.

EXERCISE SCHEDULE. Stock options will be exercisable as to two-thirds when the trading price of Rayonier Common Shares reaches \$39.19 per share and as to the remaining one-third when the trading price of Rayonier Common Shares reaches \$43.89 per share. These threshold conditions will be computed by using the daily closing price of Rayonier Common Shares as reported on the New York Stock Exchange Composite Transactions. The closing price of Rayonier Common Shares must remain at or above the required threshold price for ten (10) consecutive trading days. Notwithstanding the foregoing threshold requirements, this Option shall become fully exercisable after October 16, 2002 and no portion hereof may be exercised prior to the filing of a registration statement on Form S-8 with respect to the Common Shares subject to this Option.

- C. COMPLIANCE WITH LAWS AND REGULATIONS. The Option evidenced hereby are subject to restrictions imposed at any time on the exercise or delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable.
- D. INTERPRETATION. Optionee hereby acknowledges that this Agreement is governed by the Plan, a copy of which Optionee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith, as may be adopted and amended from time by the Committee (the "Rules"). Optionee agrees to be bound by the terms and provisions of the Plan and the Rules. The provisions of the Rayonier 1994 Incentive Stock Plan (the "Incentive Plan") applicable to non-qualified options thereunder shall apply for purposes of interpreting the provisions of this Agreement and the Plan, to the extent not inconsistent therewith. Optionee hereby acknowledges receiving a copy of the Incentive Plan.
- E. TRANSFER RESTRICTIONS. In addition to the restrictions on transferability imposed by the Plan and the Incentive Plan, this Option may not be transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

3. OPTION DATA.

Optionee's Name: \_\_\_\_\_

Number of Common Shares  
Subject to this Option: \_\_\_\_\_

Exercise Price Per Share: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

4. GOVERNING LAW. This Agreement is issued, and the Option evidenced hereby is granted, in Stamford, CT and shall be governed and construed in accordance with the laws of the State of Connecticut.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its authorized officer, as of the day and year first above written.

Agreed to:

Rayonier Inc.

\_\_\_\_\_  
Optionee:

By \_\_\_\_\_

John P. O'Grady  
Senior Vice President  
Human Resources

Date: \_\_\_\_\_



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

	Year Ended December 31,				
	1995	1994	1993	1992	1991
Earnings:					
Income (Loss) from Continuing Operations before Cumulative Effect of Accounting Changes	\$ 142,348	\$ 70,032	\$ 52,466	\$ (81,520)	\$ 44,337
Add (Deduct):					
Undistributed Equity (Income) Loss	--	--	--	3,257	1,587
Income Tax	65,711	38,038	30,432	(50,366)	19,557
Minority Interest	29,897	32,419	22,508	22,702	19,884
Amortization of Capitalized Interest	1,963	1,644	1,411	1,486	1,134
	239,919	142,133	106,817	(104,441)	86,499
Adjustments to Earnings for Fixed Charges:					
Interest and Other Financial Charges	33,615	31,065	23,368	21,327	13,942
Interest Factor Attributable to Rentals	1,444	1,474	1,760	1,870	1,902
	35,059	32,539	25,128	23,197	15,844
Earnings as Adjusted	\$ 274,978	\$ 174,672	\$ 131,945	\$ (81,244)	\$ 102,343
Fixed Charges:					
Fixed Charges above Capitalized Interest	\$ 35,059	\$ 32,539	\$ 25,128	\$ 23,197	\$ 15,844
	1,346	194	--	893	3,214
Total Fixed Charges	36,405	32,733	25,128	24,090	19,058
Dividends on Preferred Stock (Pre-tax income basis)	--	--	--	714	--
Total Fixed Charges and Preferred Dividend Requirement	\$ 36,405	\$ 32,733	\$ 25,128	\$ 24,804	\$ 19,058
Ratio of Earnings as Adjusted to Total Fixed Charges and Preferred Dividend Requirement	7.55	5.34	5.25	*	5.37
Effective Tax Rate	32%	35%	37%	(38%)	31%

\* Earnings are inadequate to cover total fixed charges and preferred dividend requirement by \$106,048.

## 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. 33-51972 and 33-52855).

ARTHUR ANDERSEN LLP

Stamford, Connecticut  
March 22, 1996

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints GERALD J. POLLACK 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, 1995 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 15, 1996

/s/ RONALD M. GROSS

-----  
Ronald M. Gross  
Chairman of the Board, President,  
Chief Executive Officer and Director

/s/ WILLIAM J. ALLEY

-----  
William J. Alley  
Director

/s/ RAND V. ARASKOG

-----  
Rand V. Araskog  
Director

/s/ DONALD W. GRIFFEN

-----  
Donald W. Griffin  
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/ NICHOLAS L. TRIVISONNO

-----  
Nicholas L. Trivisonno  
Director

/s/ GORDON I ULMER

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Gordon I. Ulmer  
Director

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