

Rayonier
Third Quarter 2004
Supplemental
Material

Safe Harbor

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

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Third Quarter - Highlights

(\$ Millions - Except Per Share Data)

	3Q 2004	2Q 2004	Variance to 3Q 2003
<u>Profitability</u>			
Sales	279	(58)	11
Operating Income	31	(39)	10
Net Income	24	(20)	16
Earnings Per Share	0.47	(0.39)	0.28
Pro forma Earnings Per Share	0.47	(0.39)	0.31*
ROE Annualized **	12.8%	(4.6%)	12.2%

	Nine Months Ended September 30,	
	2004	Variance to 2003
<u>Capital Resources and Liquidity</u>		
Cash Provided by Operating Activities	234	61
Cash Used for Investing Activities	(143)	(84)
Cash Used for Financing Activities	(71)	(25)
Cash Available for Distribution (CAD) ***	147	36
Adjusted EBITDA ***	272	49
Debt	616	5
Debt / Capital	43.7%	1.2%

* Includes pro forma effect of 15% share dilution due to special REIT dividend.

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

*** Non-GAAP measures (see pages 18 and 19 for definitions and reconciliations).

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Quarter to Quarter Comparisons - 3Q 04 to 2Q 04

(\$ Millions - Except EPS)

	Pre- Tax	Net Income	EPS
2004 2Q - Income	59	44	0.86
Variance			
Timber and Land			
- Timber Volume / Other	(8)	(5)	(0.10)
- Land Sales	(30)	(19)	(0.38)
Performance Fibers			
- Price / Mix	1	1	0.02
- Cost / Volume / Other	(3)	(2)	(0.04)
Wood Products			
- Lumber	(1)	(1)	(0.01)
- MDF	-	-	-
Other Operations	(1)	(1)	(0.02)
Corporate / Other	3	2	0.03
Operating Income	(39)	(25)	(0.50)
Interest Expense	-	-	0.01
Other	-	-	-
Taxes - Excluding LKE	-	(5)	(0.10)
Taxes - LKE	-	10	0.20
2004 3Q - Income	20	24	0.47

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Third Quarter / Nine Month Comparisons - 2004 to 2003

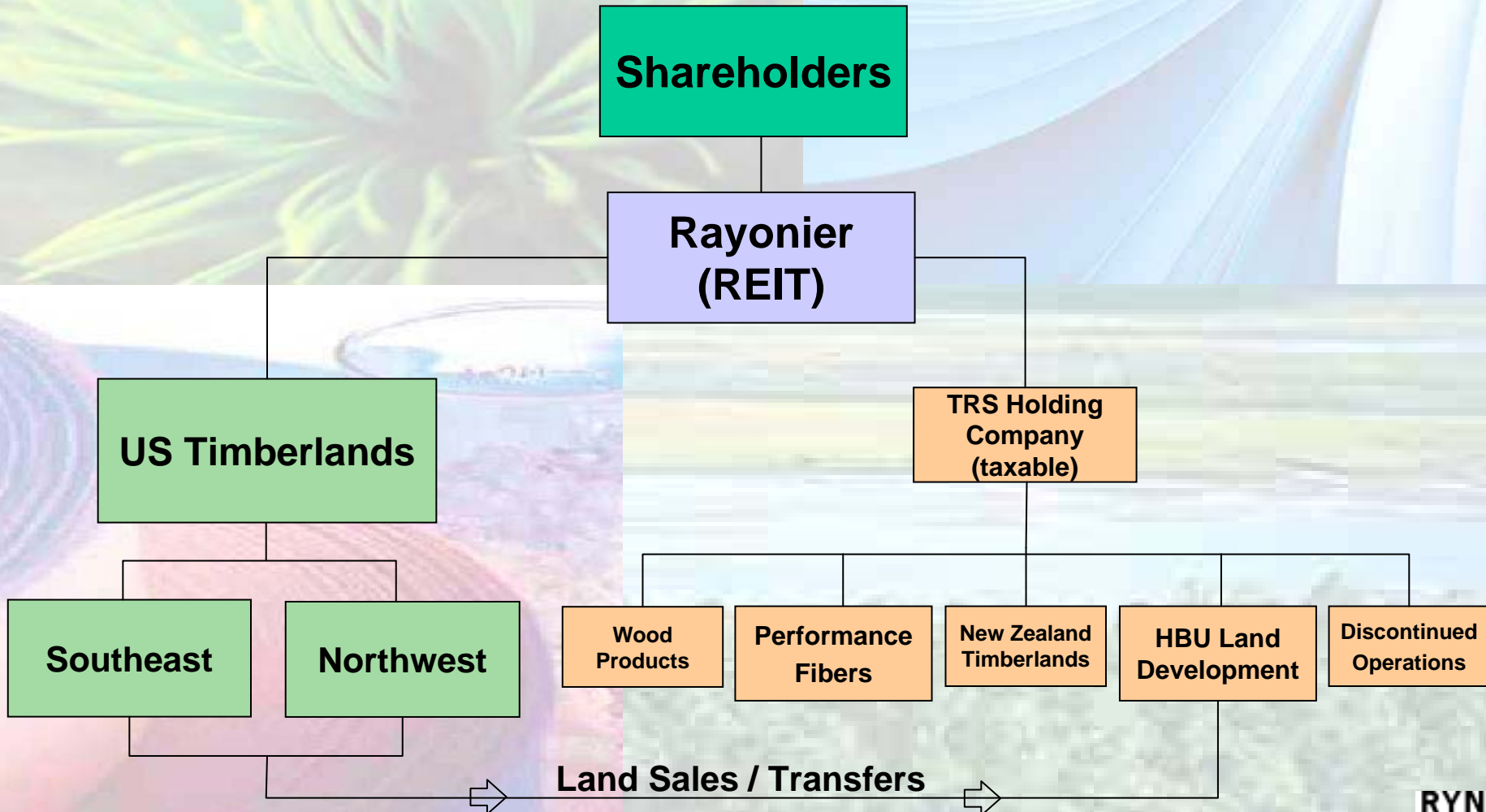
(\$ Millions - Except EPS)

	Third Quarter			September YTD		
	Pre-Tax	Net Income	EPS	Pre-Tax	Net Income	EPS
2003	10	8	0.16*	60	48	0.98*
Variance						
Timber and Land						
- Timber Price	5	3	0.05	14	9	0.17
- Timber Volume / Other	(1)	(1)	-	5	3	0.07
- Land Sales	(19)	(12)	(0.23)	(17)	(11)	(0.21)
Performance Fibers						
- CS Price / Mix	7	5	0.09	18	12	0.23
- AM Price / Mix	3	2	0.02	8	5	0.09
- Volume / Cost / Other	5	2	0.08	12	7	0.16
Wood Products						
- Lumber	5	3	0.06	17	11	0.21
- MDF	-	-	-	(2)	(1)	(0.02)
Other Operations	1	1	0.02	6	4	0.08
Corporate / Other	3	3	0.04	(12)	(7)	(0.15)
Operating Income	9	6	0.13	49	32	0.63
Interest Expense	-	-	0.01	2	1	0.03
Other	1	-	(0.02)	-	-	(0.06)
Taxes - Excluding LKE	-	-	(0.01)	-	3	0.06
Taxes - LKE	-	10	0.20	-	10	0.20
2004	20	24	0.47	111	94**	1.84**

* Includes pro forma effect of 15% share dilution due to special REIT dividend: reported amount was \$0.19 for 3Q 03 and \$1.13 for 9 months 2003.

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

Rayonier Structural Overview



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Reconciliation of Adjusted EBITDA to CAD

(\$ Millions – Except Per Share Data)

	Nine Months Ended September 30,	
	2004	2003
Adjusted EBITDA	\$ 271.5	\$ 222.2
Capital spending, net	(53.6)	(53.3)
Purchase of assets previously leased	-	(5.4)
Income tax expense *	(17.4)	(12.3)
Interest expense	(34.7)	(36.9)
Working capital / other balance sheet changes *	(5.5)	(0.2)
Like-kind exchange tax benefits on on third party land sales **	(9.9)	-
Tax benefit on exercise of stock options	(3.5)	(3.6)
Cash Available for Distribution (CAD)	<u>\$ 146.9</u>	<u>\$ 110.5</u>
Average diluted shares outstanding	50,934,033	42,557,905
CAD per share	<u>\$ 2.88</u>	<u>\$ 2.60</u>

* Excludes reversal of deferred taxes not required after REIT conversion of \$77.9 million and additional taxes for repatriation of foreign earnings of (\$28.2) million in 1Q 04, like-kind exchange cash tax benefits of \$20.2 million on intercompany land sales in 3Q 04.

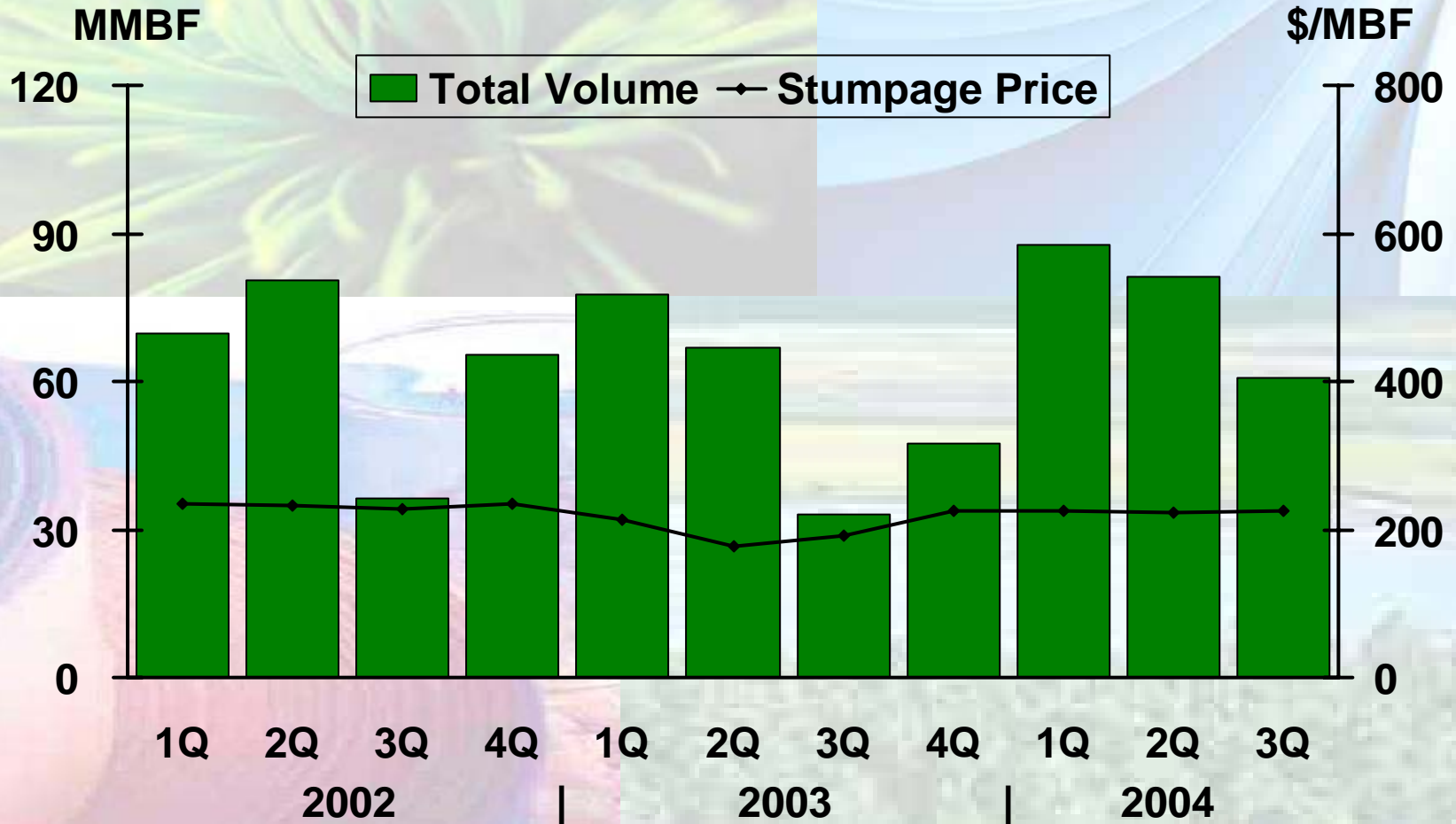
** Represents taxes that would have been paid on third party land sales had the Company not completed a like-kind exchange transaction.



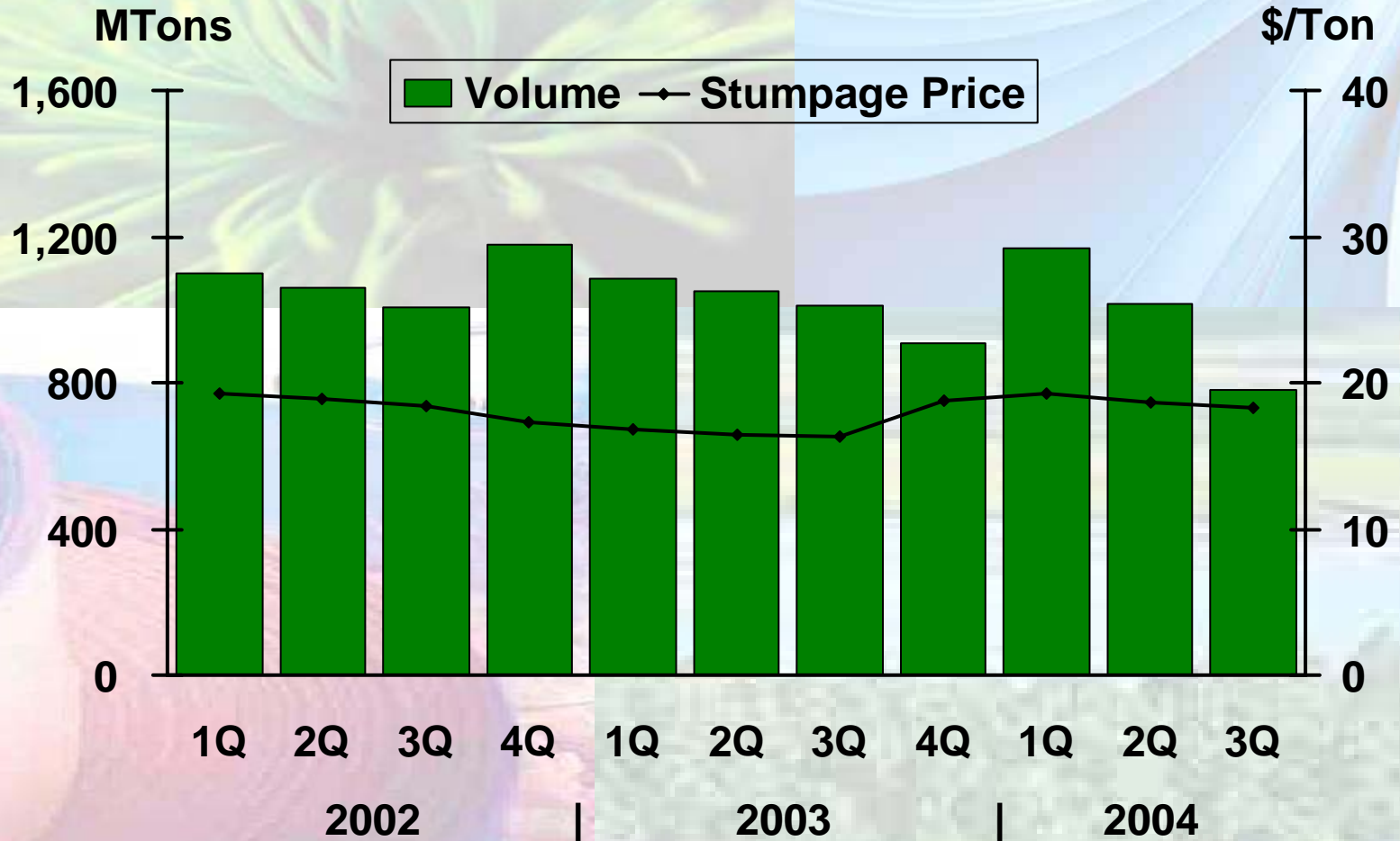
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Markets and Operations

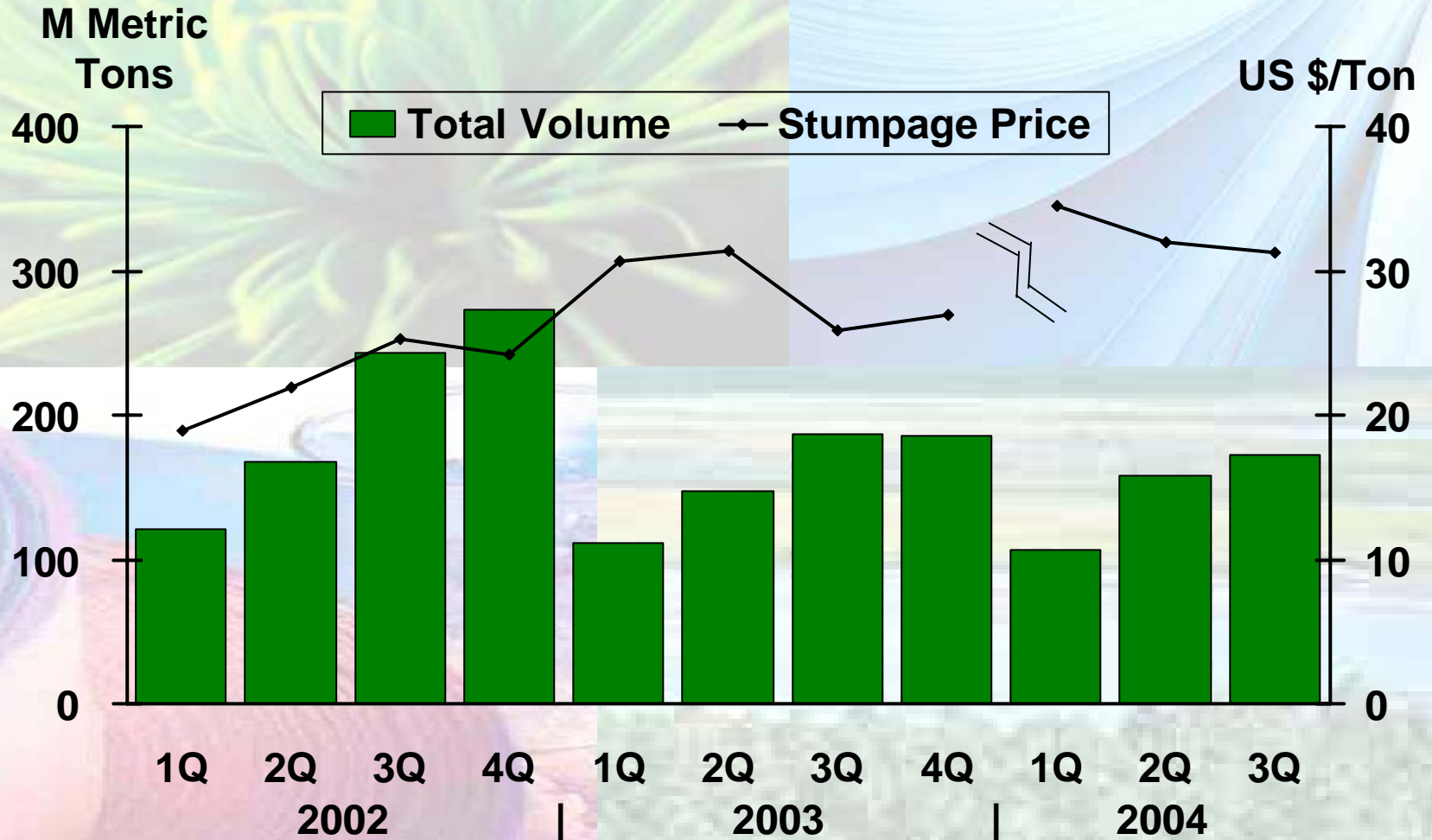
Rayonier Northwest Timber Sales



Rayonier Southeast Pine Timber Sales

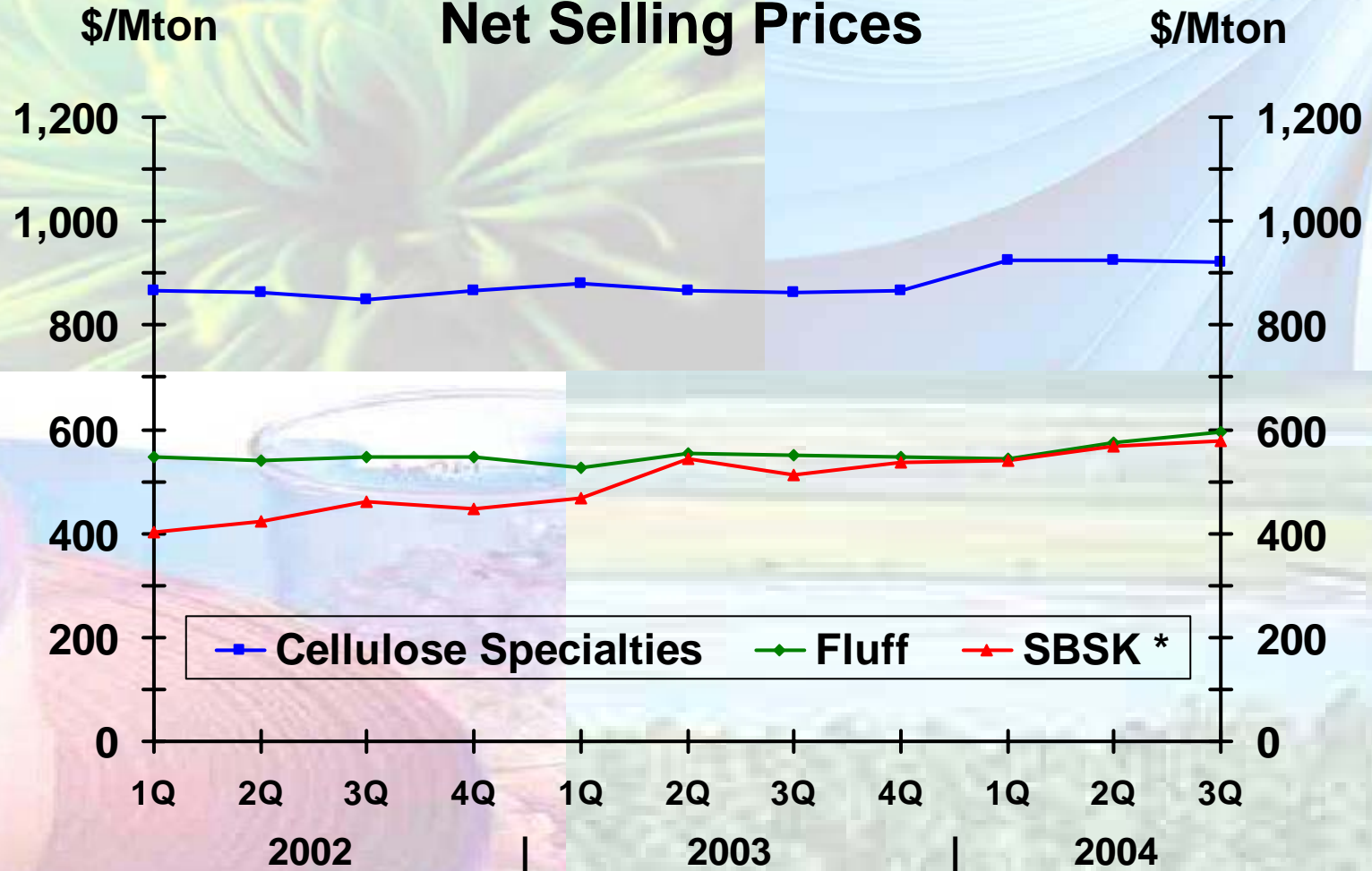


Rayonier New Zealand Timber Sales



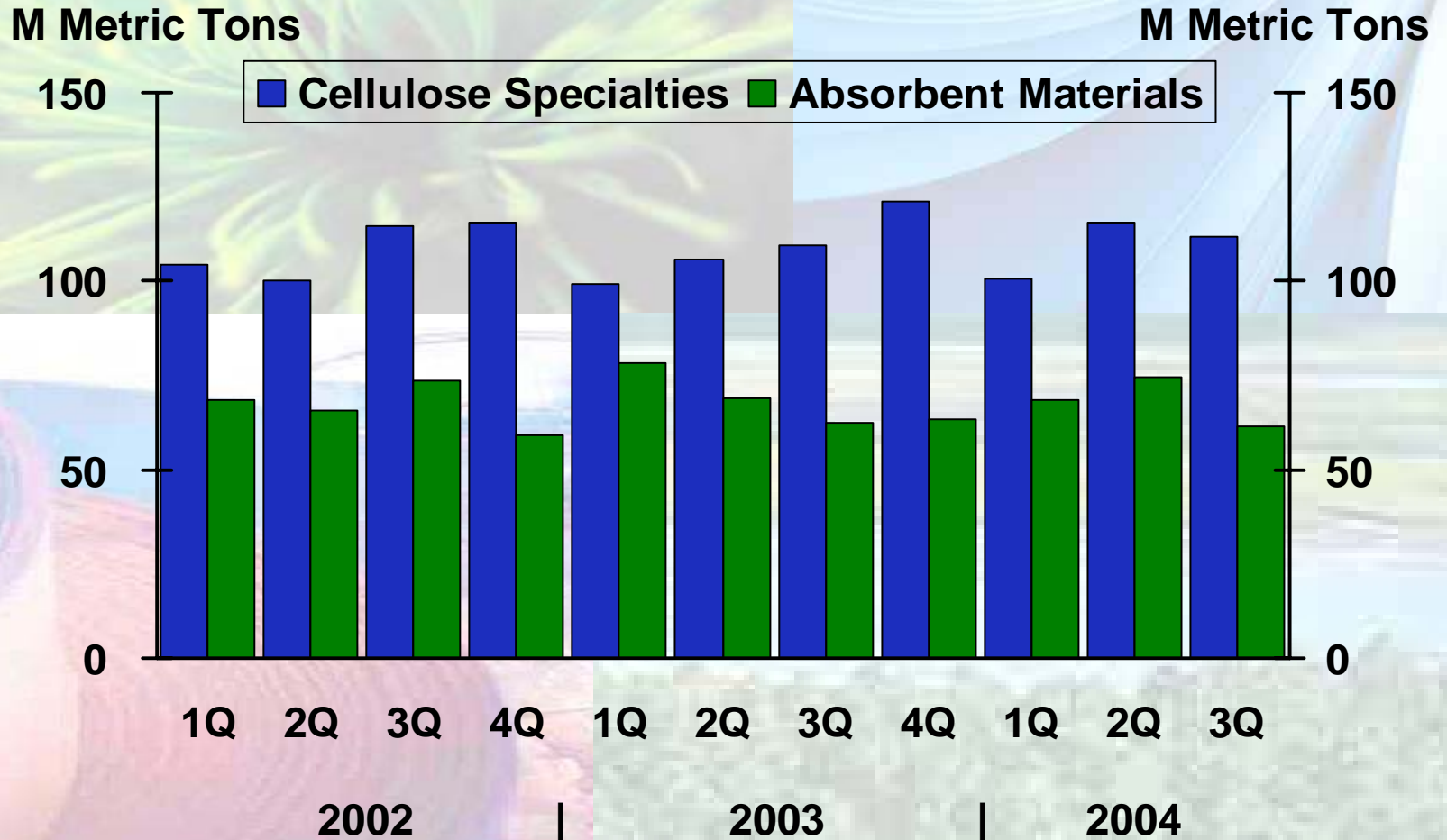
Note: 2004 prices exclude lower value timber sold as logs.

Rayonier Performance Fibers Net Selling Prices



* Source: RISI gross price less typical discounts

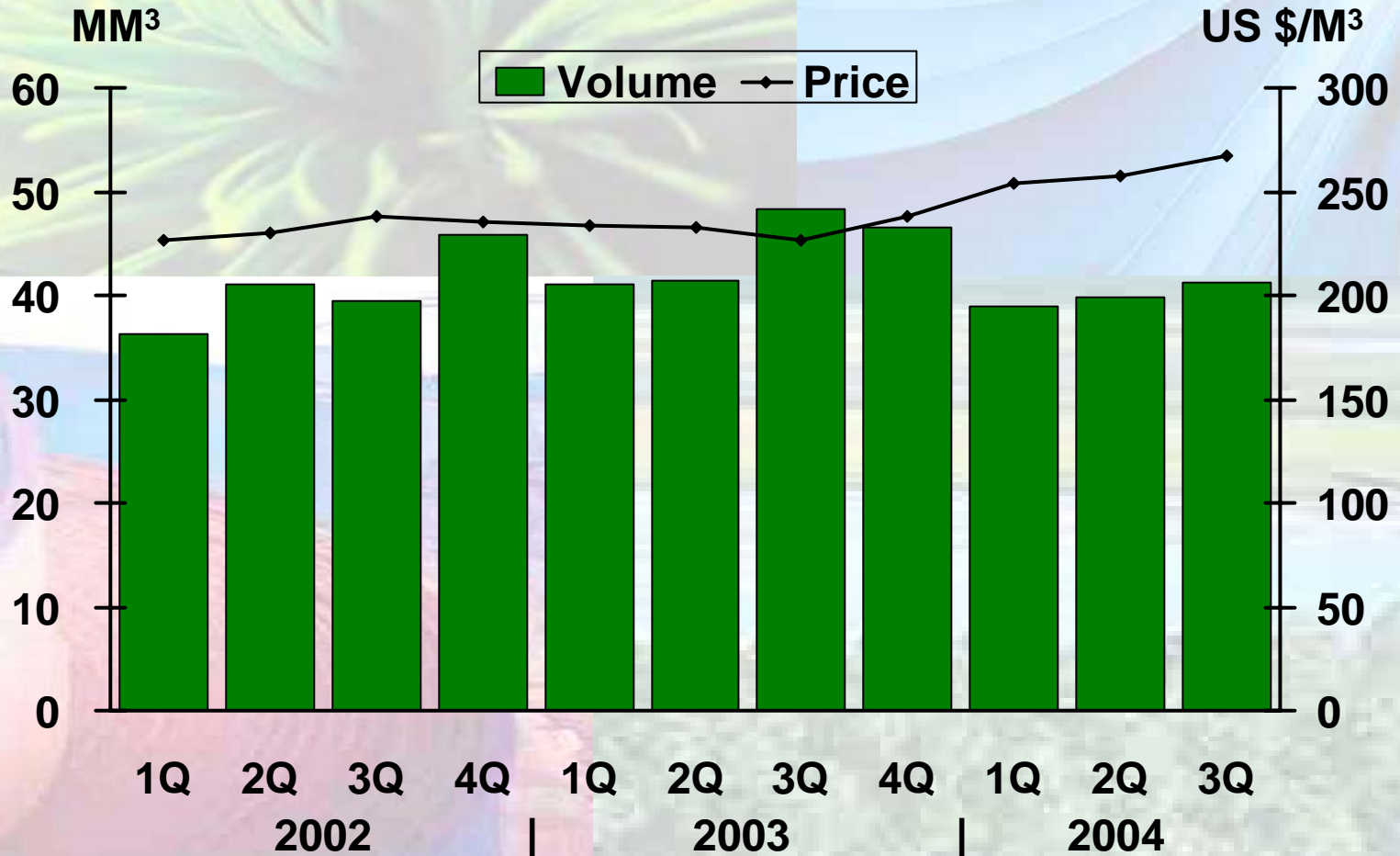
Rayonier Performance Fibers Sales Volumes



Rayonier Wood Products Southeast Lumber



Rayonier Wood Products Medium Density Fiberboard (MDF)



Rayonier Earnings Per Share (\$)

	2004	2003	
		Pro forma **	As Reported
First Quarter	0.51 *	0.17	0.20 ***
Second Quarter	0.86	0.65	0.74
Third Quarter	0.47	0.16	0.19
Fourth Quarter	Down ↓ ?	← Up 0.04	0.04
Full Year	?	1.02	1.16
First Call Estimate for 2004 - 10/26/04	2.11		

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

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

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

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



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Appendix

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Reconciliation of Non-GAAP Measures

(\$ Millions)

	Nine Months Ended	
	September 30,	
	<u>2004</u>	<u>2003</u>
Cash Available for Distribution (CAD)		
Cash provided by operating activities	\$ 234.1	\$ 172.8
Capital spending (a)	(53.6)	(53.3)
Purchase of assets previously leased	-	(5.4)
Like-kind exchange tax benefits on third party land sales (b)	(9.9)	-
Like-kind exchange tax benefits on intercompany land sales (b)	(20.2)	-
Tax benefit on exercise of stock options	(3.5)	(3.6)
Cash Available for Distribution (CAD)	<u>\$ 146.9</u>	<u>\$ 110.5</u>

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

(b) Represents taxes that would have been paid if the Company had not completed an LKE transaction

Adjusted EBITDA

Cash provided by operating activities	\$ 234.1	\$ 172.8
Income tax (benefit) expense	(32.3)	12.3
Interest expense	34.7	36.9
Working capital increases (decreases)	(26.9)	5.3
Other balance sheet changes	61.9	(5.1)
Adjusted EBITDA	<u>\$ 271.5</u>	<u>\$ 222.2</u>

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Definitions of Non-GAAP Measures

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

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

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

	Three Months Ended						Nine Months Ended			
	September 30, 2004		June 30, 2004		September 30, 2003		September 30, 2004		September 30, 2003	
	\$	%	\$	%	\$	%	\$	%	\$	%
Income tax provision at the U.S. statutory rate	\$ 7.1	35.0	\$ 20.6	35.0	\$ 3.6	35.0	\$ 38.9	35.0	\$ 21.1	35.0
REIT income not subject to federal tax	(9.7)	(47.6)	(14.2)	(24.2)	-	-	(30.8)	(27.8)	-	-
Lost deduction on REIT interest expense and overhead expenses associated with REIT activities	1.7	8.4	6.5	11.3	-	-	10.0	9.1	-	-
State and local income taxes, foreign exchange rate changes and permanent differences	(3.1)	(15.5)	3.6	6.1	(1.6)	(15.2)	0.7	0.6	(6.8)	(11.1)
Income tax (benefit) expense before discrete items *	\$ (4.0)	(19.7)	\$ 16.5	28.2	\$ 2.0	19.8	\$ 18.8	16.9	\$ 14.3	23.9
Exchange rate changes on tax on undistributed foreign earnings	1.6	7.9	(1.6)	(2.8)	-	-	-	-	-	-
Return to accrual adjustment	(1.4)	(6.8)	-	-	0.3	2.4	(1.4)	(1.2)	0.3	0.4
Tax benefit from interim partial IRS audit settlement	-	-	-	-	-	-	-	-	(2.3)	(3.9)
Income tax (benefit) expense *	<u>\$ (3.8)</u>	<u>(18.6)</u>	<u>\$ 14.9</u>	<u>25.4</u>	<u>\$ 2.3</u>	<u>22.2</u>	<u>\$ 17.4</u>	<u>15.7</u>	<u>\$ 12.3</u>	<u>20.4</u>

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