

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

OR

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

FOR THE TRANSITION PERIOD FROM ..... TO .....

COMMISSION FILE NUMBER 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina  
I.R.S. Employer Identification Number 13-2607329

1177 Summer Street, Stamford, Connecticut 06905-5529  
(Principal Executive Office)

Telephone Number: (203) 348-7000

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

YES  (X) NO  ( )

As of August 3, 1998, there were 28,172,309 Common Shares of the Registrant  
outstanding.

## RAYONIER INC.

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## PART I. FINANCIAL INFORMATION

## ITEM L. FINANCIAL STATEMENTS

The following unaudited financial statements reflect, in the opinion of Rayonier Inc. (Rayonier or the Company), all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations, the financial position and the cash flows for the periods presented. For a full description of accounting policies, please refer to Notes to Consolidated Financial Statements in the 1997 Annual Report on Form 10-K.

RAYONIER INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME  
(UNAUDITED)  
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

|  | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 1998                           | 1997       | 1998                         | 1997       |
| SALES                                  | \$ 254,011                     | \$ 290,073 | \$ 479,425                   | \$ 550,211 |
| Costs and expenses                     |                                |            |                              |            |
| Cost of sales                          | 210,301                        | 240,360    | 394,480                      | 450,141    |
| Selling and general expenses           | 9,412                          | 9,729      | 17,759                       | 20,234     |
| Other operating income, net            | (874)                          | (1,091)    | (2,143)                      | (1,712)    |
|  | 218,839                        | 248,998    | 410,096                      | 468,663    |
| OPERATING INCOME                       | 35,172                         | 41,075     | 69,329                       | 81,548     |
| Interest expense                       | (9,072)                        | (6,051)    | (16,984)                     | (11,907)   |
| Interest and miscellaneous income, net | 202                            | 557        | 497                          | 954        |
| Minority interest                      | --                             | (6,208)    | --                           | (14,287)   |
| Income before income taxes             | 26,302                         | 29,373     | 52,842                       | 56,308     |
| Provision for income taxes             | (7,862)                        | (9,612)    | (16,206)                     | (18,151)   |
| NET INCOME                             | \$ 18,440                      | \$ 19,761  | \$ 36,636                    | \$ 38,157  |
| NET INCOME PER COMMON SHARE            |                                |            |                              |            |
| Basic EPS                              | \$ 0.65                        | \$ 0.68    | \$ 1.29                      | \$ 1.31    |
| Diluted EPS                            | \$ 0.64                        | \$ 0.67    | \$ 1.27                      | \$ 1.29    |

RAYONIER INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)  
(THOUSANDS OF DOLLARS)

| ASSETS  | June 30,<br>1998<br>----- | December 31,<br>1997<br>----- |
|---|---------------------------|-------------------------------|
| <b>CURRENT ASSETS</b>   |                           |                               |
| Cash and short-term investments   | \$ 15,622                 | \$ 10,661                     |
| Accounts receivable, less allowance for doubtful<br>accounts of \$4,514 and \$4,481                     | 115,174                   | 115,704                       |
| Inventories   |                           |                               |
| Finished goods  | 48,376                    | 51,398                        |
| Work in process   | 18,072                    | 17,491                        |
| Raw materials   | 18,633                    | 19,740                        |
| Manufacturing and maintenance supplies  | 25,426                    | 25,519                        |
|   | -----                     | -----                         |
| Total inventories   | 110,507                   | 114,148                       |
| Timber purchase agreements  | 39,358                    | 31,758                        |
| Other current assets  | 11,285                    | 13,955                        |
| Deferred income taxes   | 21,144                    | 24,288                        |
|   | -----                     | -----                         |
| Total current assets  | 313,090                   | 310,514                       |
| <b>OTHER ASSETS</b>   | 63,966                    | 55,791                        |
| <b>TIMBER PURCHASE AGREEMENTS</b>   | 28,398                    | 28,248                        |
| <b>TIMBER, TIMBERLANDS AND LOGGING ROADS,<br/>NET OF DEPLETION AND AMORTIZATION</b>                     | 548,639                   | 497,110                       |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                           |                               |
| Land, buildings, machinery and equipment  | 1,297,044                 | 1,266,431                     |
| Less - accumulated depreciation   | 594,931                   | 562,536                       |
|   | -----                     | -----                         |
|   | 702,113                   | 703,895                       |
|   | -----                     | -----                         |
|   | \$1,656,206               | \$1,595,558                   |
|   | =====                     | =====                         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                           |                               |
| <b>CURRENT LIABILITIES</b>  |                           |                               |
| Accounts payable  | \$ 63,998                 | \$ 74,269                     |
| Bank loans and current maturities   | 3,963                     | 4,194                         |
| Accrued taxes   | 16,703                    | 10,973                        |
| Accrued payroll and benefits  | 22,957                    | 18,694                        |
| Accrued interest  | 7,274                     | 6,076                         |
| Other current liabilities   | 41,651                    | 66,085                        |
| Current reserves for dispositions and discontinued operations   | 26,587                    | 26,247                        |
|   | -----                     | -----                         |
| Total current liabilities   | 183,133                   | 206,538                       |
| <b>DEFERRED INCOME TAXES</b>  | 112,810                   | 113,442                       |
| <b>LONG-TERM DEBT</b>   | 516,439                   | 421,325                       |
| <b>NON-CURRENT RESERVES FOR DISPOSITIONS<br/>AND DISCONTINUED OPERATIONS</b>                            | 165,450                   | 172,615                       |
| <b>OTHER NON-CURRENT LIABILITIES</b>  | 33,267                    | 31,997                        |
| <b>MINORITY INTEREST</b>  | --                        | 16,959                        |
| <b>SHAREHOLDERS' EQUITY</b>   |                           |                               |
| Common Shares, 60,000,000 shares authorized, 28,193,693<br>and 28,283,634 shares issued and outstanding | 95,504                    | 102,175                       |
| Retained earnings   | 549,603                   | 530,507                       |
|   | -----                     | -----                         |
|   | 645,107                   | 632,682                       |
|   | -----                     | -----                         |
|   | \$1,656,206               | \$1,595,558                   |
|   | =====                     | =====                         |



RAYONIER INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED CASH FLOWS  
(UNAUDITED)  
(THOUSANDS OF DOLLARS)

|  | Six Months<br>Ended June 30, |                 |
|--|------------------------------|-----------------|
|  | 1998                         | 1997            |
| <b>OPERATING ACTIVITIES</b>  |                              |                 |
| Net income   | \$ 36,636                    | \$ 38,157       |
| Non-cash items included in income  |                              |                 |
| Depreciation, depletion and amortization   | 47,760                       | 47,572          |
| Deferred income taxes  | 8                            | 10,893          |
| Increase in other non-current liabilities  | 1,270                        | 809             |
| Change in accounts receivable, inventories<br>and accounts payable                                       | (6,100)                      | 16,632          |
| (Increase) decrease in current timber purchase agreements  | (7,600)                      | 9,018           |
| Decrease in other current assets   | 2,670                        | 460             |
| Decrease in accrued liabilities  | (13,243)                     | (12,414)        |
|  | -----                        | -----           |
| <b>CASH FROM OPERATING ACTIVITIES</b>  | <b>61,401</b>                | <b>111,127</b>  |
|  | -----                        | -----           |
| <b>INVESTING ACTIVITIES</b>  |                              |                 |
| Capital expenditures, net of sales and retirements<br>of \$2,186 and \$240                               | (48,686)                     | (76,933)        |
| Acquisition of Rayonier Timberlands, L.P. Class A Units  | (48,821)                     | --              |
| Expenditures for dispositions and discontinued operations,<br>net of tax benefits of \$2,504 and \$5,707 | (4,321)                      | (9,817)         |
| Change in timber purchase agreements and other assets  | (8,325)                      | 1,206           |
|  | -----                        | -----           |
| <b>CASH USED FOR INVESTING ACTIVITIES</b>  | <b>(110,153)</b>             | <b>(85,544)</b> |
|  | -----                        | -----           |
| <b>FINANCING ACTIVITIES</b>  |                              |                 |
| Issuance of debt   | 183,910                      | 139,682         |
| Repayments of debt   | (89,027)                     | (120,162)       |
| Dividends paid   | (17,539)                     | (17,454)        |
| Repurchase of Common Shares  | (8,710)                      | (23,145)        |
| Issuance of Common Shares  | 2,038                        | 1,407           |
| Buyout of minority interest  | (16,959)                     | (590)           |
|  | -----                        | -----           |
| <b>CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>  | <b>53,713</b>                | <b>(20,262)</b> |
|  | -----                        | -----           |
| <b>CASH AND SHORT-TERM INVESTMENTS</b>   |                              |                 |
| Increase in cash and short term investments  | 4,961                        | 5,321           |
| Balance, beginning of period   | 10,661                       | 3,432           |
|  | -----                        | -----           |
| Balance, end of period   | \$ 15,622                    | \$ 8,753        |
|  | =====                        | =====           |
| <b>Supplemental disclosures of cash flow information</b>   |                              |                 |
| Cash paid during the period for:   |                              |                 |
| Interest   | \$ 15,980                    | \$ 14,386       |
|  | =====                        | =====           |
| Income taxes   | \$ 11,718                    | \$ 3,693        |
|  | =====                        | =====           |

RAYONIER INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
 (THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

1. EARNINGS PER COMMON SHARE

In 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." The following table provides details of the calculation of basic and diluted EPS for the three and six months ended June 30, 1998 and 1997.

|   | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 1998                           | 1997       | 1998                         | 1997       |
| Net Income                              | \$ 18,440                      | \$ 19,761  | \$ 36,636                    | \$ 38,157  |
| Shares used for determining basic EPS   | 28,273,886                     | 28,958,213 | 28,290,854                   | 29,094,176 |
| Dilutive effect of:                     |                                |            |                              |            |
| Stock options                           | 337,795                        | 351,933    | 312,159                      | 304,595    |
| Contingent shares                       | 231,084                        | 223,500    | 231,084                      | 223,500    |
| Shares used for determining diluted EPS | 28,842,765                     | 29,533,646 | 28,834,097                   | 29,622,271 |
| Basic EPS                               | \$ 0.65                        | \$ 0.68    | \$ 1.29                      | \$ 1.31    |
| Diluted EPS                             | \$ 0.64                        | \$ 0.67    | \$ 1.27                      | \$ 1.29    |

2. NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS No.133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS No.133 is effective for fiscal years beginning after June 15, 1999, but may be adopted as of the beginning of any fiscal quarter after issuance. SFAS No.133 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The sales and operating income of Rayonier's business segments for the three and six months ended June 30, 1998 and 1997 were as follows (thousands of dollars):

|                                       | Three Months<br>Ended June 30, |                   | Six Months<br>Ended June 30, |                   |
|---------------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
|                                       | 1998                           | 1997              | 1998                         | 1997              |
| <b>SALES</b>                          |                                |                   |                              |                   |
| <b>TIMBER AND WOOD PRODUCTS</b>       |                                |                   |                              |                   |
| Trading and merchandising             | \$ 52,849                      | \$ 77,573         | \$ 88,006                    | \$ 134,310        |
| Timberlands management                | 50,022                         | 44,145            | 101,892                      | 93,659            |
| Wood products                         | 32,276                         | 38,637            | 61,483                       | 68,300            |
| Intrasegment eliminations             | (3,226)                        | (5,631)           | (5,824)                      | (11,918)          |
| <b>Total Timber and Wood Products</b> | <b>131,921</b>                 | <b>154,724</b>    | <b>245,557</b>               | <b>284,351</b>    |
| <b>SPECIALTY PULP PRODUCTS</b>        |                                |                   |                              |                   |
| Chemical cellulose                    | 75,786                         | 86,850            | 143,531                      | 167,066           |
| Fluff and specialty paper pulps       | 46,784                         | 39,963            | 91,898                       | 83,157            |
| <b>Total Specialty Pulp Products</b>  | <b>122,570</b>                 | <b>126,813</b>    | <b>235,429</b>               | <b>250,223</b>    |
| Intersegment eliminations             | (480)                          | (353)             | (1,561)                      | (978)             |
| <b>Total before dispositions</b>      | <b>254,011</b>                 | <b>281,184</b>    | <b>479,425</b>               | <b>533,596</b>    |
| Dispositions                          | --                             | 8,889             | --                           | 16,615            |
| <b>Total sales</b>                    | <b>\$ 254,011</b>              | <b>\$ 290,073</b> | <b>\$ 479,425</b>            | <b>\$ 550,211</b> |
| <b>OPERATING INCOME</b>               |                                |                   |                              |                   |
| Timber and Wood Products              | \$ 30,840                      | \$ 35,044         | \$ 60,476                    | \$ 68,691         |
| Specialty Pulp Products               | 7,693                          | 9,024             | 15,585                       | 21,411            |
| Corporate and other                   | (3,637)                        | (4,203)           | (6,712)                      | (8,347)           |
| Intersegment eliminations             | 276                            | 39                | (20)                         | 151               |
| <b>Total before dispositions</b>      | <b>35,172</b>                  | <b>39,904</b>     | <b>69,329</b>                | <b>81,906</b>     |
| Dispositions                          | --                             | 1,171             | --                           | (358)             |
| <b>Total operating income</b>         | <b>\$ 35,172</b>               | <b>\$ 41,075</b>  | <b>\$ 69,329</b>             | <b>\$ 81,548</b>  |

RESULTS OF OPERATIONS

SALES AND OPERATING INCOME

Sales for the second quarter of 1998 were \$254 million, \$36 million or 12 percent lower than the second quarter of 1997. Sales for the six months ended June 30, 1998 of \$479 million were \$71 million or 13 percent lower than the prior year. Sales declined primarily due to sharply reduced Asian demand for logs, lower chemical cellulose volume, decreased lumber selling prices and the absence of disposition sales from the Company's Port Angeles pulp mill, permanently closed in February 1997. Operating income for the second quarter of 1998 of \$35 million was \$6 million less than the prior year. Operating income for the six month period was \$69 million, \$12 million or 15 percent less than the prior year, as a result of losses from the Company's medium-density fiberboard (MDF) plant, lower lumber margins and unfavorable pulp sales mix and volume. Adverse weather conditions in the first half of the year also disrupted production schedules and raised the cost of wood fiber at the Company's pulp and sawmills.



## TIMBER AND WOOD PRODUCTS

Timber and Wood Products' sales for the three month period ended June 30, 1998 were \$132 million, \$23 million below last year's results. Sales for the six month period were \$246 million, \$39 million below 1997, reflecting lower log trading activity in Asian markets. Operating income for the quarter of \$31 million was \$4 million lower than the same period last year. Year to date operating income of \$60 million was \$8 million lower than 1997, as strong Southeast U.S. timber earnings were more than offset by lower lumber margins, and losses at the Company's MDF plant in New Zealand, which began commercial operations October 1, 1997.

Trading and merchandising sales of \$88 million were \$46 million lower than 1997, reflecting significantly reduced North American and New Zealand export log volumes and selling prices resulting from a stronger U.S. dollar and weakness in Asian wood markets. Operating income was slightly lower than 1997.

Timberlands management sales of \$102 million were \$8 million above last year due to higher timber prices, volumes and land sales in the Southeast U.S. Operating income improved \$10 million from 1997 as a result of the strong Southeast U.S. timber market, due to unusually wet weather conditions early in the year that led to restricted supply, and increased land sales.

Wood products sales of \$62 million were \$7 million lower than 1997. Operating income declined \$17 million from 1997 as a result of lower sales prices and higher log costs affecting lumber, and losses from the MDF business, as it continued to develop markets and increase production.

## SPECIALTY PULP PRODUCTS

Sales of Specialty Pulp Products were \$123 million compared to \$127 million for last year's second quarter. Sales for the first six months of 1998 were \$235 million, \$15 million lower than 1997. The decline was primarily due to lower sales volumes and an unfavorable sales mix, due to reduced customer demand for chemical cellulose pulps. Operating income for the first six months was \$16 million, a decrease of \$6 million from 1997, as a result of lower volumes for chemical cellulose, higher wood costs and production shortfalls.

## OTHER INCOME / EXPENSE

Interest expense was \$17 million for the first six months of 1998, \$5 million higher than 1997, reflecting lower capitalized interest following start up of the MDF plant and interest expense associated with the \$66 million purchase of the publicly traded Class A Units of the Company's U.S. timberlands partnership in January. Elimination of the minority interest in the partnership contributed approximately \$16 million to pretax earnings in the first six months of 1998, partially offset by higher interest and depletion costs.

The effective tax rate of 30.7 percent for the first half of 1998 is lower than the first half 1997 effective rate of 32.2 percent due to R & D tax credits recognized in the current year.

## NET INCOME

Net income for the second quarter was \$18.4 million or \$0.64 per Common Share, compared to \$19.8 million, or \$0.67 cents per Common Share in 1997. Net income for the six months ended June 30, 1998 was \$36.6 million or \$1.27 per Common Share, slightly below the \$38.2 million, or \$1.29 per Common Share earned last year.

## OTHER ITEMS

Preliminary indications are that forest fires in the Southeast U.S. in early July affected approximately 26,000 acres of Rayonier timberland. As a result, the Company expects to take a writedown in the third quarter of approximately \$5 million pretax, 10 cents per share after-tax, for the book value of destroyed immature timber. In addition, second-half earnings will be negatively impacted by the sale of lower-priced, fire damaged timber.

Earnings for the year are now projected to be lower than last year as the Company faces difficult market conditions in the second half for Specialty Pulp, and for timber and wood products in New Zealand, because of the Asian economic situation. The Company may take some market-related downtime in Specialty Pulp and MDF. Southeast U.S. timber markets, which were strong in the first half, will be temporarily affected by a glut of fire-damaged timber. Markets are reasonably good for U.S. wood products and Northwest timber, although Northwest timber volumes are typically lower in the second half of the year.

In January 1998, Rayonier acquired all of the publicly traded Class A Units of its master limited partnership, Rayonier Timberlands, L.P., for a cash purchase price of \$13.00 per unit. The acquisition was accounted for under the purchase method and was financed by the utilization of existing credit facilities.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities of \$61 million for the first six months of 1998 decreased \$50 million from 1997 as a result of increased working capital requirements. EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization) for the first six months of 1998 of \$118 million increased \$2 million from 1997 results. Cash from operating activities and additional borrowings helped to finance capital expenditures of \$51 million, dividends of \$18 million and the repurchase of Common Shares for \$9 million. The Company also increased its borrowings to finance the \$66 million acquisition of the outstanding publicly traded Class A Unit minority interest in Rayonier Timberlands L.P.

The Company repurchased 190,294 of its shares during the first six months of 1998 at an average cost of \$45.77. Over the same period of 1997, in connection with an expanded one-year repurchase program, the Company repurchased 579,100 shares at an average cost of \$39.97 per share for \$23 million. In July 1998, the Company increased the number of common shares authorized to be repurchased by 200,000. Second quarter ending debt was \$520 million and the debt-to-capital-ratio was 44.7 percent compared to 40.2 percent at December 31, 1997.

The Company has unsecured credit facilities totaling \$300 million, which were used for direct borrowings of \$40 million and as support for \$150 million of outstanding commercial paper. As of June 30, 1998, the Company had \$110 million of available borrowings under its revolving credit facilities. In addition, through currently effective shelf registration statements filed with the Securities and Exchange Commission, the Company may offer up to \$100 million of new public debt securities. The Company believes that internally generated funds, combined with available external financing, will enable Rayonier to fund capital expenditures, share repurchases, working capital and other liquidity needs for the foreseeable future.

#### SAFE HARBOR

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

## ITEM 3. SELECTED OPERATING DATA

|   | Three Months<br>Ended June 30, |       | Six Months<br>Ended June 30, |       |
|---|--------------------------------|-------|------------------------------|-------|
|   | 1998                           | 1997  | 1998                         | 1997  |
| <b>TIMBER AND WOOD PRODUCTS</b>   |                                |       |                              |       |
| Trading volume  |                                |       |                              |       |
| North America logs, in millions of board feet                           | 36                             | 75    | 69                           | 120   |
| New Zealand logs, in thousands of cubic meters                          | 225                            | 288   | 376                          | 525   |
| Other logs, in thousands of cubic meters                                | 51                             | 58    | 89                           | 191   |
| Timber sales volume   |                                |       |                              |       |
| Northwest U.S., in millions of board feet                               | 57                             | 49    | 124                          | 108   |
| Southeast U.S., in thousands of short green tons                        | 621                            | 534   | 1,230                        | 1,144 |
| New Zealand, in thousands of cubic meters                               | 244                            | 288   | 370                          | 499   |
| Lumber sales volume, in millions of board feet                          | 83                             | 89    | 157                          | 163   |
| Medium-density fiberboard sales volume,<br>in thousands of cubic meters | 24                             | --    | 37                           | --    |
| Intercompany sales volume   |                                |       |                              |       |
| Northwest U.S. timber, in millions of board feet                        | 3                              | 4     | 5                            | 10    |
| Southeast U.S. timber, in thousands of short green tons                 | 18                             | 13    | 50                           | 38    |
| New Zealand timber in thousands of cubic meters                         | 94                             | 141   | 154                          | 271   |
| <b>SPECIALTY PULP PRODUCTS</b>  |                                |       |                              |       |
| Pulp sales volume (a)   |                                |       |                              |       |
| Chemical cellulose, in thousands of metric tons                         | 86                             | 100   | 163                          | 189   |
| Fluff and specialty paper pulp, in thousands of metric tons             | 89                             | 80    | 175                          | 161   |
| Production as a percent of capacity                                     | 98.7%                          | 98.4% | 98.6%                        | 98.6% |

(a) Excludes 1997 second quarter and six months sales by the Port Angeles pulp mill of 9 and 18, respectively, for chemical cellulose and 1 and 5, respectively, for fluff and specialty paper pulp.

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 SELECTED SUPPLEMENTAL FINANCIAL DATA (thousand of dollars, except per share data)

|                                     | Three Months<br>Ended June 30, |                  | Six Months<br>Ended June 30, |                  |
|-------------------------------------|--------------------------------|------------------|------------------------------|------------------|
|                                     | 1998                           | 1997             | 1998                         | 1997             |
| <b>GEOGRAPHICAL DATA (NON-U.S.)</b> |                                |                  |                              |                  |
| Sales                               |                                |                  |                              |                  |
| New Zealand                         | \$ 16,545                      | \$ 22,430        | \$ 27,611                    | \$ 39,581        |
| Other                               | 4,977                          | 7,077            | 8,113                        | 15,607           |
| Total                               | <u>\$ 21,522</u>               | <u>\$ 29,507</u> | <u>\$ 35,724</u>             | <u>\$ 55,188</u> |
| Operating Income                    |                                |                  |                              |                  |
| New Zealand                         | \$ (3,222)                     | \$ 2,179         | \$ (8,502)                   | \$ 2,390         |
| Other                               | (918)                          | (925)            | (2,167)                      | (1,942)          |
| Total                               | <u>\$ (4,140)</u>              | <u>\$ 1,254</u>  | <u>\$ (10,669)</u>           | <u>\$ 448</u>    |
| <b>TIMBERLANDS MANAGEMENT</b>       |                                |                  |                              |                  |
| Sales                               |                                |                  |                              |                  |
| Northwest U.S.                      | \$ 20,589                      | \$ 20,450        | \$ 47,423                    | \$ 46,820        |
| Southeast U.S.                      | 23,555                         | 15,551           | 45,135                       | 32,741           |
| New Zealand                         | 5,878                          | 8,144            | 9,334                        | 14,098           |
| Total                               | <u>\$ 50,022</u>               | <u>\$ 44,145</u> | <u>\$ 101,892</u>            | <u>\$ 93,659</u> |
| Operating Income                    |                                |                  |                              |                  |
| Northwest U.S.                      | \$ 14,493                      | \$ 15,037        | \$ 35,475                    | \$ 36,597        |
| Southeast U.S.                      | 17,965                         | 11,084           | 34,342                       | 22,927           |
| New Zealand                         | 2,446                          | 2,104            | 3,101                        | 3,304            |
| Total                               | <u>\$ 34,904</u>               | <u>\$ 28,225</u> | <u>\$ 72,918</u>             | <u>\$ 62,828</u> |
| EBITDA per Share                    |                                |                  |                              |                  |
| Northwest U.S.                      | \$ 0.55                        | \$ 0.52          | \$ 1.30                      | \$ 1.26          |
| Southeast U.S.                      | 0.73                           | 0.45             | 1.37                         | 0.94             |
| New Zealand                         | 0.18                           | 0.17             | 0.26                         | 0.29             |
| Total                               | <u>\$ 1.46</u>                 | <u>\$ 1.14</u>   | <u>\$ 2.93</u>               | <u>\$ 2.49</u>   |

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

On April 20, 1998, the U.S. District Court for the Southern District of Georgia granted summary judgment in favor of Rayonier in the action brought by Powell-Duffryn Terminals which was reported in Rayonier's 10-K for 1997. The plaintiffs filed a notice of appeal on June 10, 1998 with the U.S. Court of Appeals for the Eleventh Circuit.

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

The Annual Meeting of Shareholders of the Company was held on May 15, 1998. At that meeting, three directors were elected as follows (there were no broker non-votes with respect to the election of directors):

|  | Votes For<br>----- | Votes Withheld<br>----- |
|--|--------------------|-------------------------|
| Director of Class I, Term Expires in 2001: |                    |                         |
| Ronald M. Gross                            | 25,777,784         | 192,112                 |
| Katherine D. Ortega                        | 25,774,844         | 195,052                 |
| Burnell R. Roberts                         | 25,769,878         | 200,018                 |

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) See Exhibit Index.
- (b) Rayonier Inc. did not file a report on Form 8-K during the quarter covered by this report.

## SIGNATURE

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. (Registrant)

BY /s/ KENNETH P. JANETTE

-----  
Kenneth P. Janette  
Vice President and Corporate Controller  
(Chief Accounting Officer)

August 14, 1998

## EXHIBIT INDEX

| EXHIBIT NO.<br>----- | DESCRIPTION<br>-----  | LOCATION<br>-----   |
|----------------------|---|---|
| 2                    | Plan of acquisition, reorganization, arrangement, liquidation or succession | None  |
| 3.1                  | Amended and restated articles of incorporation                              | No amendments   |
| 3.2                  | By-laws   | No amendments   |
| 4                    | 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 instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission. |
| 10                   | Material contracts  | None  |
| 11                   | Statement re computation of per share earnings                              | Not required to be filed  |
| 12                   | Statement re computation of ratios  | Filed herewith  |
| 15                   | Letter re unaudited interim financial information                           | None  |
| 18                   | Letter re change in accounting principles                                   | None  |
| 19                   | Report furnished to security holders  | None  |
| 22                   | Published report regarding matters submitted to vote of security holders    | None  |
| 23                   | Consents of experts and counsel   | None  |
| 24                   | Power of attorney   | None  |
| 27                   | Financial data schedule   | Filed herewith  |
| 99                   | Additional exhibits   | None  |

RAYONIER INC. AND SUBSIDIARIES  
RATIO OF EARNINGS TO FIXED CHARGES  
(UNAUDITED)  
(THOUSANDS OF DOLLARS)

|   | Six Months<br>Ended June 30, |                            |
|---|------------------------------|----------------------------|
|   | -----<br>1998<br>-----       | -----<br>1997<br>-----     |
| Earnings:   |                              |                            |
| Net Income  | \$36,636                     | \$38,157                   |
| Add:  |                              |                            |
| Income Taxes  | 16,206                       | 18,151                     |
| Minority Interest                                       | --                           | 14,287                     |
| Amortization of Capitalized Interest                    | 1,122                        | 536                        |
|   | -----<br>53,964              | -----<br>71,131            |
| Adjustments to Earnings for Fixed Charges:              |                              |                            |
| Interest and Other Financial Charges                    | 16,984                       | 11,907                     |
| Interest Factor Attributable to Rentals                 | 987                          | 1,094                      |
|   | -----<br>17,971              | -----<br>13,001            |
| EARNINGS AS ADJUSTED                                    | -----<br>\$71,935<br>=====   | -----<br>\$84,132<br>===== |
| Fixed Charges:  |                              |                            |
| Fixed Charges above<br>Capitalized Interest             | \$17,971<br>194              | \$13,001<br>3,076          |
| TOTAL FIXED CHARGES                                     | -----<br>\$18,165<br>=====   | -----<br>\$16,077<br>===== |
| RATIO OF EARNINGS AS ADJUSTED TO<br>TOTAL FIXED CHARGES | -----<br>3.96<br>=====       | -----<br>5.23<br>=====     |

5  
1,000

6-MOS

|           |             |           |
|-----------|-------------|-----------|
|           | DEC-31-1998 |           |
|           | JAN-01-1998 |           |
|           | JUN-30-1998 |           |
|           |             | 15,622    |
|           |             | 0         |
|           |             | 119,688   |
|           |             | 4,514     |
|           |             | 110,507   |
|           | 313,090     |           |
|           |             | 1,297,044 |
|           |             | 594,931   |
|           |             | 1,656,206 |
| 183,133   |             |           |
|           |             | 516,439   |
|           |             | 0         |
|           |             | 0         |
|           |             | 95,504    |
|           |             | 549,603   |
| 1,656,206 |             |           |
|           |             | 479,425   |
|           | 479,425     |           |
|           |             | 394,480   |
|           |             | 394,480   |
|           |             | 15,119    |
|           |             | 0         |
|           | 16,984      |           |
|           |             | 52,842    |
|           |             | 16,206    |
| 36,636    |             |           |
|           |             | 0         |
|           |             | 0         |
|           |             | 0         |
|           |             | 36,636    |
|           |             | 1.29      |
|           |             | 1.27      |