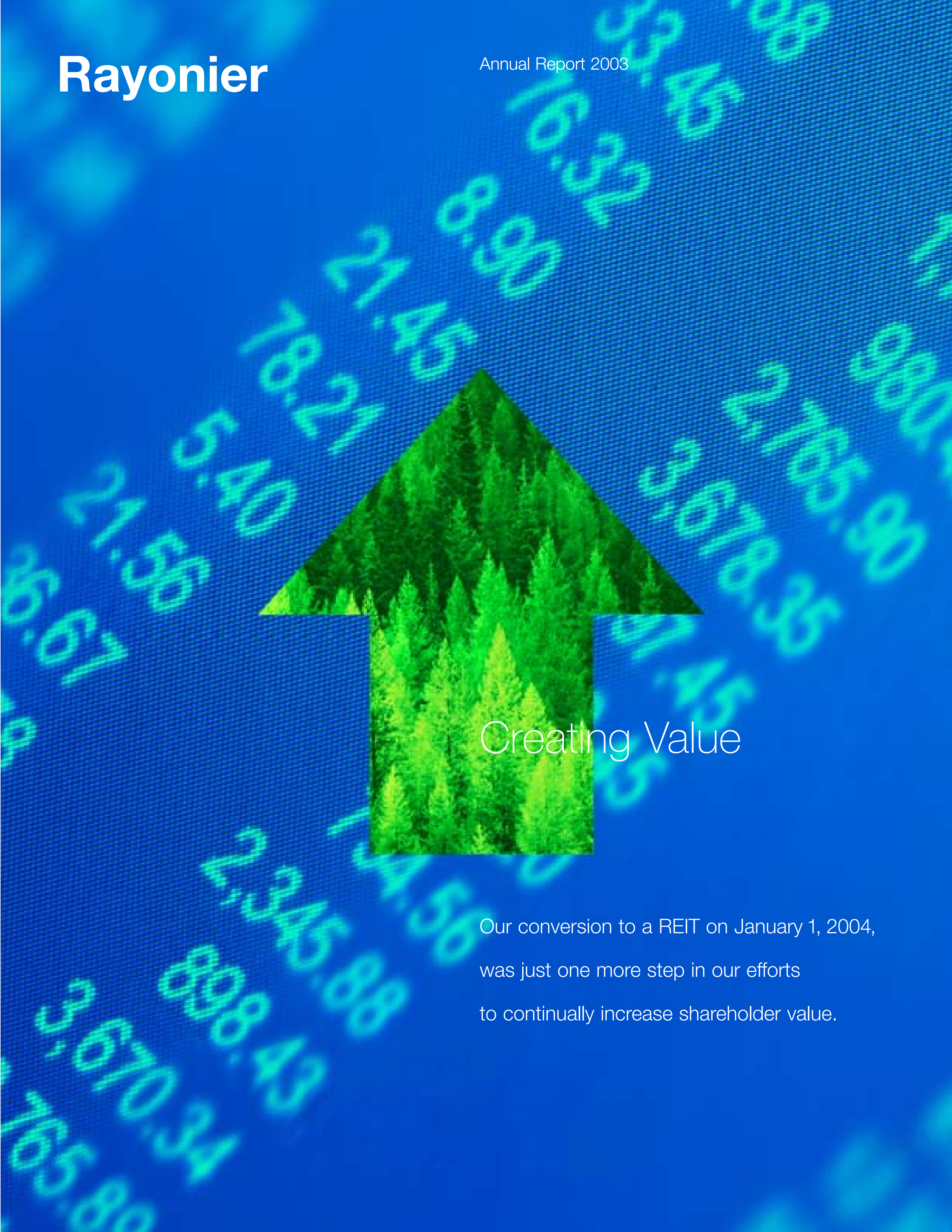
Rayonier

Annual Report 2003



Creating Value

Our conversion to a REIT on January 1, 2004, was just one more step in our efforts to continually increase shareholder value.

Rayonier has 2.1 million acres of prime timber and land in the U.S. and New Zealand

and is the world's leading producer of high performance specialty cellulose fibers.

Approximately 40 percent of the company's sales are outside the U.S. to customers in

more than 50 countries.

Financial Highlights*

Millions, except per share amounts		2003	2002***	% change
Sales and Earnings	Sales	$ 1,101	$ 1,117	-1%
	Operating income	103	130	-21%
	Income from continuing operations	50	55	-9%
	Net income	50	54	-7%
Financial Condition	Total assets	$ 1,839	$ 1,887	-3%
	Total debt	618	653	-5%
	Book value	711	710	—
Cash Flow	Cash provided by operating activities	$ 208	$ 253	-18%
	Capital expenditures	86	77	+12%
	Adjusted EBITDA	268	312	-14%
	Free cash flow	78	62	+26%
	Dividends paid	105**	40	+163%
Outstanding Shares of Common Stock		49.0	41.6	+18%
Per Share	Net income	$ 1.16	$ 1.28	-9%
	Book value	14.51	17.07	-15%
Performance Ratios	Operating income to sales	9%	12%	
	Return on equity	7%	8%	
	Return on assets	3%	3%	
	Debt to capital	47%	48%	
	Debt to market capital	23%	34%	

* For detailed financial information, please see the company's Annual Report on Form 10-K, available free of charge from the company (see page 22).

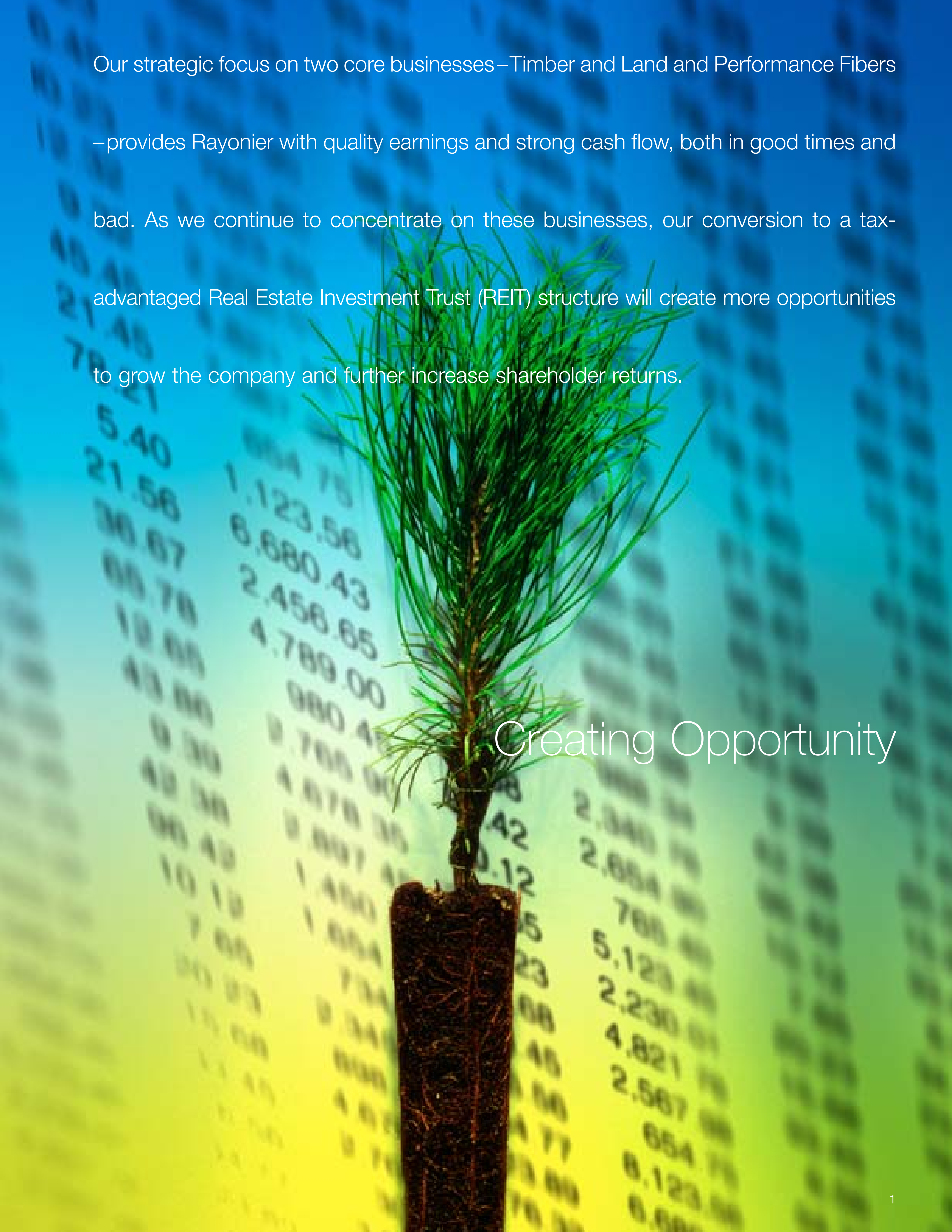
** Includes regular dividends of $44 million and the cash component of the special earnings and profit dividend of $61 million.

*** 2002 data was restated to reflect June 12, 2003 three-for-two stock split.

Safe Harbor Comments about anticipated demand, sales, expenses, earnings and dividend levels, and the expected benefits from the company's REIT conversion, 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 cellulose specialties, absorbent materials, timber, wood products or real estate; adverse weather conditions; 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; the company's ability to satisfy complex rules in order to remain qualified as a REIT; and implementation or revision of governmental policies and regulations affecting the environment, 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.

Table of Contents:

Our strategic focus on two core businesses – Timber and Land and Performance Fibers – provides Rayonier with quality earnings and strong cash flow, both in good times and bad. As we continue to concentrate on these businesses, our conversion to a tax-advantaged Real Estate Investment Trust (REIT) structure will create more opportunities to grow the company and further increase shareholder returns.



Creating Opportunity

Focused on Value

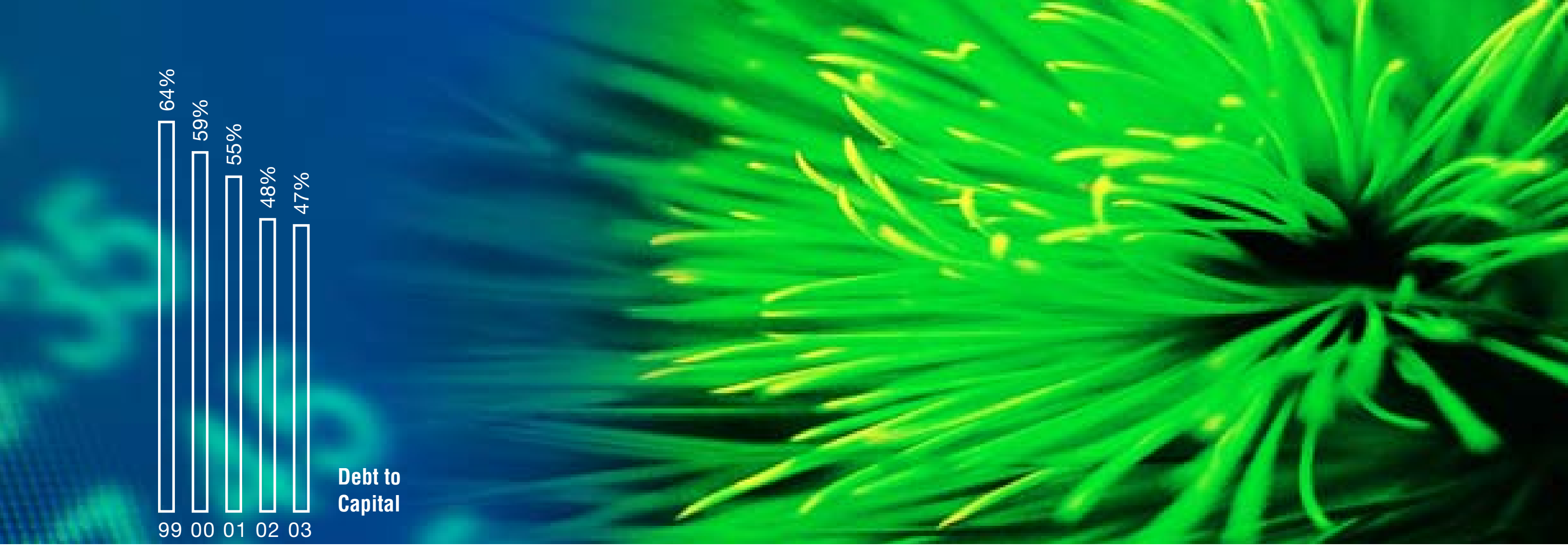
W. Lee Nutter, Chairman,
President and Chief Executive Officer

Despite a challenging year operationally, our results were comparatively solid due to the consistent strength and stability of our two core businesses.

* *Prior years restated to reflect the June 12, 2003 three-for-two stock split*

To Our Shareholders:

In 2003, we took one of the most dramatic steps in Rayonier's nearly 80-year history with our decision to convert to a Real Estate Investment Trust (REIT). In so doing, we can now capture major tax benefits relative to timber harvesting, utilize a capital structure that enhances our ability to finance growth and significantly increase tax-efficient distributions to shareholders.



Debt was reduced by $34 million in 2003.

When we announced our decision August 19 to convert to a REIT, we said it was good news for our company, our employees, and our shareholders. And, clearly, it has been. Since that announcement and our official conversion January 1, 2004, through February:

- Our share price increased approximately 45 percent and market capitalization rose $650 million to nearly $2.2 billion
- In December, a special dividend of $61 million in cash and 6.35 million shares was distributed to shareholders
- Liquidity of our stock improved dramatically, as daily trading volumes doubled
- Our regular quarterly dividend has been increased 150 percent to an annual rate of approximately $111 million, or $2.24 per share

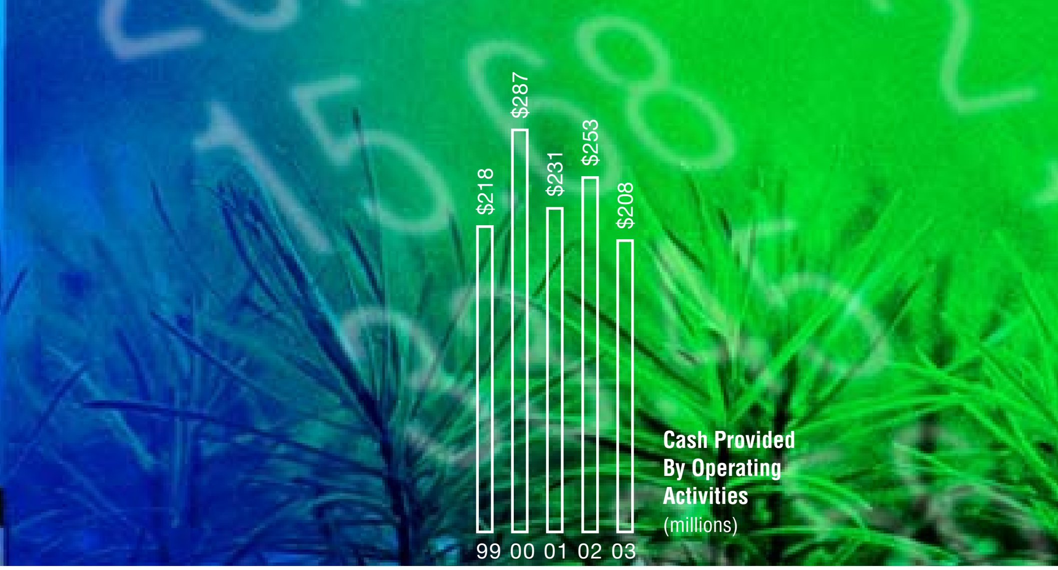
While all this is good news, we know it means little unless we not only sustain this performance, but improve upon it. As a REIT, and especially as a timber REIT, we think we are particularly well-positioned to do just that.

A hallmark of Rayonier is consistently strong cash flow generated by our core businesses, Timber and Land and Performance Fibers. Now, as a REIT, we will provide shareholders with a significantly increased portion of that cash flow in the form of a tax-advantaged dividend. And, unlike most REITs, it is estimated that as much as half of Rayonier's dividend will not be taxable to the extent a shareholder has cost basis in our stock. The rest will be treated as capital gains and taxed at no more than 15 percent. For most shareholders, that will result in an effective tax rate of less than 10 percent.

In addition, as more and more investors become aware of our new REIT structure and its favorable after-tax yield, additional value in our shares should accrue. Our REIT status also gives us an attractive acquisition currency in the form of equity financing, making us more competitive as we pursue cash-accretive timberland growth opportunities.

We had been considering converting to a REIT since 1999 after tax code changes provided clear advantages to timberland ownership via a REIT structure. But, we could not do so until meeting financial, tax and legal considerations relating to the various tests necessary for REIT qualification. The difficulty of qualifying as a timber REIT is readily apparent when one considers that of 172 publicly traded REITs, only one other is a forest products company.

Key members of Rayonier's senior management group, from left, include: Timothy H. Brannon, Senior Vice President, Forest Resources and Wood Products; Paul G. Boynton, Senior Vice President, Performance Fibers; Gerald J. Pollack, Senior Vice President and Chief Financial Officer; and W. Edwin Frazier, Vice President, Governance and Corporate Secretary.



Our core businesses consistently generate strong cash flow.

But, now that we have successfully converted, we are very enthusiastic about our new corporate structure and the opportunities it provides to grow our company and shareholder value.

Operational Performance

While the complexities of converting to a REIT occupied a considerable amount of management's attention in 2003, we did not lose sight of the need to tightly manage our businesses through difficult times. Although still below what we consider acceptable, our results once again exceeded the average of our industry and the S&P 500.

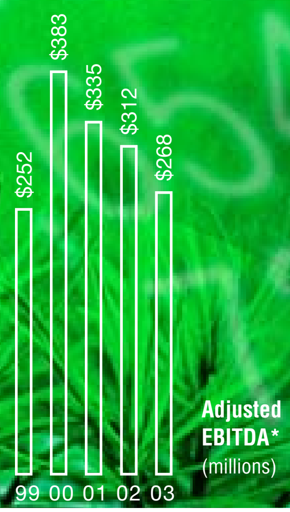
Net income was $50 million, or $1.16 per share, compared to $54 million, or $1.28 per share in 2002. Some of the shortfall can be attributed to REIT conversion costs (12 cents per share) and related delays in Northwest timber harvests (6 cents per share). However, the biggest factor was disappointing results from our Performance Fibers group, which experienced its first operational loss in 10 years due to weather-related, record-high hardwood costs and manufacturing difficulties on one of our four pulping lines.

Although it was a challenging year, our strong cash flow easily enabled us to pay our regular dividend of $44 million as well as the $61 million cash portion of the special REIT dividend, reduce debt by $34 million, fund capital expenditures of $86 million and still end the year with a cash balance of $21 million.

Timber and Land Operating income improved to $139 million from $124 million in 2002, largely due to exceptionally strong interest in the thousands of acres of highly valuable land we own in the Southeast for recreation, conservation or development purposes. Income from the sale of standing timber, always a solid source of earnings and cash flow, was off slightly, in part due to the postponement of some sales into 2004 to take advantage of our REIT status. With timber prices improving modestly near year-end and into 2004, we are hopeful that, after several years of slowly declining prices, 2003 saw the bottom of the market.

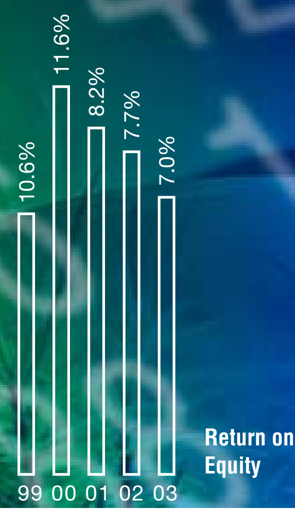
Our strategy for the Timber and Land group is to maximize returns through our timber auction sales program, continually improve timber yields, identify and aggressively market higher-value properties, and to use our tax-advantaged REIT status to efficiently acquire new timberlands.

Performance Fibers There was both good news and bad for this segment in 2003. On the positive side, with the closure of a key competitor's cellulose acetate mill, we were able to consolidate our position as the world's leading supplier of the highest-value cellulose specialties products. Approximately 61 percent of our



Cash flow, as measured by adjusted EBITDA, remained strong despite tough market conditions.

** Adjusted EBITDA is a non-GAAP measure defined and reconciled on page 19.*



Return on equity over the cycle was well above the industry average.

sales were to these high-margin markets in 2003. Unfortunately, the prices for the hardwood needed to produce these specialized products increased to unprecedented levels due to weather-related supply shortages, pushing hardwood fiber costs $17 million above the prior year. Coupled with an unusual number of production problems on our fluff pulp line, operating income declined from $36 million in 2002 to a loss of $3 million in 2003.

In 2004, we expect significantly better performance as hardwood costs return to more normal levels and prices for our Performance Fibers improve. In particular, year-long contracts which went into effect January 1 for our high-value cellulose specialties reflect average price increases of approximately six percent.

Our strategy for the Performance Fibers group is to further enrich our product mix and continually improve operational efficiency while providing customers – both longstanding and new – with unparalleled product quality and technical support.

Wood Products While not a core business, this group showed significant improvement in 2003 due to stronger U.S. lumber markets created by exceptional housing markets, as well as manufacturing efficiencies at our three Georgia mills. In addition, these facilities provide a significant, dependable source of chips for our Performance Fibers mills. The segment's operating loss of $5 million – although an improvement over the $9 million loss in 2002 – was primarily due to the sharp rise in the New Zealand dollar that adversely affected our New Zealand MDF plant's costs.

Looking Ahead

We expect 2004 to be a better year. In Timber and Land, markets are strengthening for timber while interest remains high in our valuable real estate holdings. In Performance Fibers, we expect improved prices and lower costs.These positive indicators, combined with the advantages of our new REIT structure, should generate improvement in both earnings and cash flow.

Over the longer term, we are convinced that our business strategies and our REIT status will enable us to more efficiently grow our company and consistently deliver superior value to our shareholders through increased distributions and an enhanced asset base.

W.L. Nutter
Chairman, President and Chief Executive Officer
March 15, 2004

Benefits of the REIT

By converting from a standard tax-paying corporation into a tax-efficient REIT, we will be able to significantly increase our dividend – and with favorable tax attributes for investors. Our new structure also provides more attractive equity financing for acquisitions that will ultimately further increase shareholder value.

Why did the company convert to a Real Estate Investment Trust (REIT)?
Since tax laws were changed in the late 1990s, Rayonier has been looking at ways to make its timberland activities a more tax-efficient vehicle for distributing cash to shareholders. As soon as certain financial and administrative constraints were resolved, we initiated the steps necessary for conversion.

How does it benefit shareholders?
Shareholders are benefited in two ways. First, as a REIT, a substantial portion of our activity relating to timber harvesting on our two million acres in the U.S. will no longer be taxed at the corporate level. Cash can therefore be passed on to shareholders. Second, the dividends paid to shareholders carry favorable tax attributes since a substantial portion is considered a return of capital and not taxed (under most circumstances) at the shareholder level, or is capital gains income taxed at a maximum rate of 15 percent. Our distribution to shareholders has been increased to an annualized rate of approximately $111 million, or $2.24 per share, with an effective tax rate that could be less than 10 percent for shareholders.

How confident are you that you will be able to maintain the $111 million distribution?
We have always generated strong cash flow from our operations, especially our core businesses – Timber and Land and Performance Fibers. Last year, for instance, we used our cash flow to fund our regular dividend of $44 million as well as the $61 million cash portion of the special REIT dividend, reduce debt by $34 million and end the year with a cash balance of $21 million. We were able to do this even though operationally it was one of the more challenging years we've had in some time. In 2004, we expect overall operating results to improve and are very comfortable with the level of our distribution.

What about future distributions?
Distributions will be based on our cash flow expectations over the business cycle. Our goal, over time, is to increase distributions to shareholders, in part by utilizing the attractive equity currency we have as a REIT to acquire cash accretive timberlands, as well as from improved profitability in our Performance Fibers business.

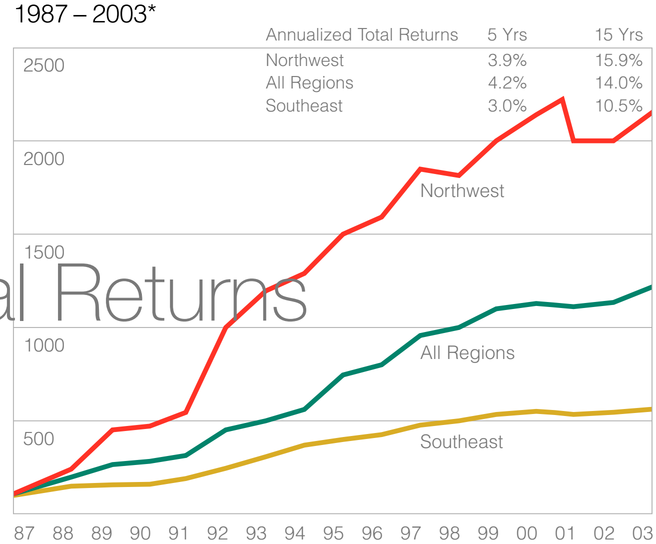
You paid a special dividend last year. Why?
To qualify for REIT status, tax laws require a corporation to distribute its pre-REIT cumulative taxable earnings and profits to shareholders. Therefore, on December 19, we paid a special taxable dividend to shareholders consisting of $61 million in cash and 6.35 million shares.

How many publicly traded forest products companies are REITs?
Of 172 publicly traded REITs, Rayonier is one of two forest products companies.

Strong Financial Returns

Investments in U.S. timberland have a history of strong returns – easily outpacing inflation – with moderate risk. Timber not harvested when prices are low continues to grow and increase in value.

Total U.S. Timberland Investment Returns
1987 – 2003*



*Reflects operating returns and appreciation in land values. Index (1987=100). Source: the National Council of Real Estate Investment Fiduciaries (NCREIF).

Our nearly two million acres of timberland in the U.S. – approximately 370,000 acres in the Northwest and 1.6 million acres in the Southeast – provide Rayonier with consistent earnings and strong cash flow that qualify for REIT tax treatment, resulting in more cash passed directly to shareholders.

Geographic Diversity

Rayonier's extensive timber and land holdings and diversity of species in key markets in the Southeast and Northwest U.S. and the Asia Pacific region provide consistency of earnings and cash flow.

Why aren't there more timber REITs?
There are very stringent asset and income tests that must be met in order to qualify as a REIT. Rayonier was able to qualify because our timber and land holdings are such a large portion of the our asset base. Forest products companies with more extensive manufacturing operations may have difficulty meeting the requirements.

Why didn't you change to a REIT earlier?
Prior to 2003, there were a number of complex factors to consider and it wasn't until this past year that everything started to come together. In 1999, our $716 million acquisition of nearly one million acres of timberland in the Southeast U.S. gave us the critical mass we needed to be a REIT, but it also increased our debt-to-capital ratio to 64 percent. We felt the prudent course was to use our cash flow to aggressively reduce debt prior to setting an appropriate distribution for a REIT. In four years, we lowered our debt by $539 million to a more reasonable debt-to-capital ratio of 47 percent, putting us in a position to significantly increase our distributions to shareholders.

What other advantages does the REIT structure provide?
Clearly it has had a positive impact on our share price and market capitalization, as well as broadening our investor base. After announcing our REIT plans August 19, our share price rose 12 percent the next day with near record trading of 2.6 million shares, about 15 times our normal trading volume at the time. Our average trading volume now is double last year's average.

In addition to increasing our distribution and its favorable tax attributes to shareholders, our new valuation provides us with a more attractive currency for making cash accretive acquisitions and, thereby, further increasing shareholder returns.

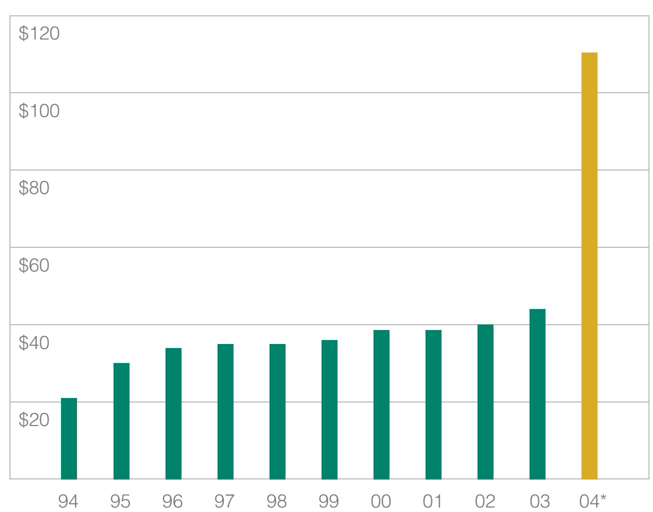
Your U.S. timberland is in the REIT, but how are earnings from other operations treated?
Non-timber operations have been transferred into a wholly owned affiliate and will continue to pay corporate-level tax on earnings. These operations include our Performance Fibers unit, wood products businesses, New Zealand timber operations and our higher-and-better use land sales. These businesses, however, will continue to contribute to our expected $111 million annual distribution.

Has converting to a REIT changed your strategy for the company?
No. We remain committed to the two core businesses in which we have leadership positions – Timber and Land, and Performance Fibers. We are the eighth largest industrial private timberland owner in the U.S. and the world's premier supplier of high-performance specialty cellulose products. Together, these businesses provide us with stable earnings and strong cash flow.

Dividend Growth

With our consistently strong cash flow, in our first year as a REIT we expect to pay a tax-advantaged dividend to shareholders of approximately $2.24 per share – a 150 percent increase over 2003.

Regular Dividend
(in millions)



*Projected

Timber and Land

Our timberlands are operated as an independent profit center. We strive to maximize the income from every one of our 2.1 million acres through sophisticated, site-specific and sustainable forestry management techniques that continually improve yields as well as through a timber auction sales program that assures we obtain the best possible prices from our holdings for shareholders.

Our 2.1 million acres of timber and land in the U.S. and New Zealand are managed as an independent profit center to maximize returns and provide steady earnings and strong cash flow.

We grow value on our timberlands in four key ways. First, through research and forest management expertise developed over decades in the forestry business, we continually improve productivity and yields. Second, Rayonier generates value from our lands through a variety of non-timber income-generating activities such as leases for hunting clubs and sales of mineral rights. Third, we sell tracts of mature timber through an auction process to ensure we receive the highest value possible. Even our own mills must compete. Few other timber companies have this kind of arm's length process. And, fourth, we regularly sell higher and better use properties to capture that incremental value for our shareholders.

While auction sales of timber have long been a strong and steady contributor to our financial results, in recent years land sales have also become an increasingly important component of our earnings. After nearly doubling our timber and land holdings with a major land purchase in 1999, we initiated a comprehensive ongoing program to identify properties that have significantly more value for recreation, conservation or development than for growing timber. We have been very pleased with the strong interest in those types of properties. Annually, our goal is to sell between 2 and 4 percent of our holdings. Obviously, we know we cannot do that forever unless we replenish our timberland base. Our new REIT status – and the opportunities it provides for attractive equity financing – should enable us to be more competitive in making these strategic acquisitions.

We do not take lightly our responsibility to be good stewards and to manage our properties to the highest environmental standards. For years, we have worked proactively and cooperatively with state and federal conservation agencies to protect water and wildlife. A rigorous audit by Bureau Veritas Quality International, a respected quality assurance firm, has certified that Rayonier's forest practices meet, or exceed, the requirements of the Sustainable Forestry Initiative®, an internationally recognized forestry standard.

The combination of our forest management expertise, auctions of timber for harvest and a higher-and-better use land sales program ensures that we receive maximum value from our holdings. As a REIT, we are now able to provide shareholders with more of that value.

Our business is growing. Each year we plant more than 50 million seedlings to ensure both the sustainability of our extensive holdings and superior financial returns for generations of shareholders to come.

Renewable Assets

Many of our extensive holdings, particularly near the fast-growing I-95 corridor between Daytona, Florida, and Savannah, Georgia, have considerably higher value for uses other than growing timber, such as recreation, conservation or development. Our program to identify and market these valuable properties will continue to be a significant contributor to earnings and cash flow.

Higher and Better Use

Larry Davis, Director, Land Marketing and Sales, and his team of specialists work to realize the full potential of our many properties which have higher value for recreation, conservation or development than for growing timber.

As the world's premier supplier of high-value specialty cellulose products, our Performance Fibers segment's earnings and cash flow are far more stable over the business cycle than those of commodity pulp and paper producers. Our focus is on strengthening our position in these niche markets and delivering unmatched technical support and product quality to our customers.

Performance Fibers

Since the founding of Rayonier nearly 80 years ago, the specialty nature of our Performance Fibers business has provided us with stability of earnings, cash flow and asset value enjoyed by few in our industry. We have built a unique franchise as the world's leading producer of high-value specialty cellulose products due to our unparalleled technical expertise and long-established customer relationships.

Our two product groups – Cellulose Specialties and Absorbent Materials – concentrate on supplying the world's most profitable worldwide markets. Last year, of the 708,000 tons sold from our mills in Jesup, GA, and Fernandina Beach, FL, 61 percent were high-value cellulose specialty products that went to the top seven percent of world markets. About a third of our output – absorbent materials, or fluff pulps – was sold to the next most profitable global markets, leaving only five percent of our production for pure commodity markets.

The clear strength of our Performance Fibers business has been, and continues to be, our leadership position in supplying high-value cellulose specialty products to customers around the world. Pricing and demand for these specialty products are more stable than for commodity pulps. With the closure of a major competitor in 2003, we have further solidified our position as the largest supplier of premium acetate, ethers and high-strength viscose fibers used to make cigarette filters, textiles, film, digital display screens, food products, pharmaceuticals, plastering compound, cosmetics, high-tenacity tire cord and other technically demanding products. Although nearing our overall production capacity to make these high-value products, we continue to seek ways to further improve our mix.

Most of our remaining production is absorbent materials, where we hold approximately seven percent of the world market for fluff pulps used to make diapers, feminine care, incontinence pads and other absorbent products. Global customers prefer fluff pulps made from U.S. Southern pine – the source of all of our fluff raw material – due to the superior absorbent qualities of the fibers. While fluff markets have become increasingly competitive, they are far more attractive than those for paper pulps.

Our strategy in the Performance Fibers business is to further enhance our strong market position and improve profitability by shifting production to higher-margin and more stable cellulose specialties products. At the same time, we are focused on continual improvements in process efficiency, product quality and on delivering unsurpassed technical support to customers.

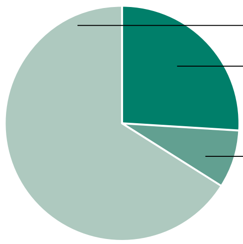
Technical support for our customers has been a hallmark of Rayonier since our founding in 1926 due to the expertise of people like Ryan Rogstad, Manager, Technical Marketing, and Ashley Speller, a scientist at our research center.

Customer Support

Timber and Land

Rayonier has 2.1 million acres in the U.S. and New Zealand from which it sells standing timber for domestic and export markets. We also sell higher-value holdings for uses such as recreation, conservation or development.

Timber and Land Revenues



Timber

Rayonier sells standing timber, on an auction basis, for domestic and export markets from 2.1 million acres in the U.S. and New Zealand. These regions have some of the highest growth rates of softwood in the world. Rayonier also has long-term agreements to provide forest management and timber marketing services to timber owners of 112,000 acres in Australia and New Zealand.

Location	Holdings
Southeast U.S.	1,620,000 acres of Southern pine and hardwood
Northwest U.S.	370,000 acres of Western hemlock and Douglas fir
New Zealand	118,000 acres of primarily radiata pine

Land

Some properties are more valuable for recreation, conservation or development than for timber production. We annually sell 2 to 4 percent of our 2.1 million acres to capture the appreciated value. Rayland, our real estate subsidiary, specializes in marketing properties for commercial and residential development, primarily along the fast-growing coastal corridor of Southeast Georgia and Northeast Florida.

Other Businesses

Wood Products

Rayonier produces and sells lumber products to domestic and export markets: boards, decking, timbers, structural framing, pattern and dimension lumber for wood treaters, truss manufacturers and other industrial accounts.

Lumber Mills	Capacity
Baxley, GA	165,000 MBF
Swainsboro, GA	120,000 MBF
Eatonton, GA	80,000 MBF

Our radiata pine-based medium-density-fiberboard (MDF) plant produces Patinna®, a premium-grade product used in high-quality furniture, cabinetry and wall paneling.

MDF Plant	Capacity
Mataura, N.Z.	170,000 m^3

Trading

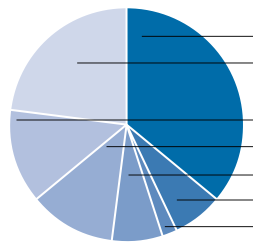
Rayonier is a leading world trader of softwood logs and wood products, with particular expertise in Pacific Rim markets, including the Russian Far East.

Areas of sourcing are North America and around the Pacific Rim.

Performance Fibers

Rayonier is a leading manufacturer of high performance cellulose fibers used in cellulose specialties and absorbent materials applications. Our production facilities have a combined annual capacity of 720,000 metric tons (Jesup, GA: 570,000 metric tons; Fernandina Beach, FL: 150,000 metric tons).

Performance Fibers Sales Volumes by Destination



			Position in World Markets
Cellulose Specialties	**Acetate**	For textile fibers, cigarette filters, optical clarity films, impact-resistant plastics, photographic film and rigid packaging.	Number 1
	Viscose	For high-tenacity rayon cord (for tires and industrial applications), textile fibers, food casing and sponges.	Number 2 High-strength viscose pulps
	Ethers and Microcrystalline Cellulose	For high-value chemical intermediates used in pharmaceuticals, cosmetics, food products, textile sizing and paints.	Number 1
	Filter Media	For high-porosity filter paper applications.	Number 2
Absorbent Materials	**Fluff Fibers**	For fluid acquisition in disposables such as diapers, feminine care and incontinence products and non-woven fabrics.	Number 5
	NovaThin® Preformed Cores	Patented engineered absorbent material for use in disposable sanitary products.	Emerging market

Eleven-Year Summary

Dollar amounts in millions	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Profitability*											
Sales[a]	**$1,101**	$1,117	$1,124	$1,196	$1,080	$1,051	$1,196	$1,271	$1,260	$1,069	$ 936
Operating income (loss)	**103**	130	149	189	137	125	168	34	234	169	127
Provision for dispositions	**—**	(3)	—	(15)	—	—	—	(125)[b]	—	—	(3)
Income (loss) from continuing operations	**50**	55	57	78	69	63	87	—	142	70	52
Provision for discontinued operations	**—**	—	—	—	—	—	—	(98)[d]	—	—	—
Net income (loss)	**50**	54	58	78	69	64	87	(98)	142	70	52
Common shares outstanding in thousands[c]	**49,018**	41,576	41,018	40,657	41,111	41,651	42,425	43,924	44,480	44,362	44,348[g]
Net income diluted earnings per share[c]	**1.16**	1.28	1.39	1.88	1.63	1.48	1.98	(2.23)	3.17	1.57	1.18
Financial Condition*											
Total assets	**$1,839**	$1,887	$2,040	$2,181	$2,302	$1,625	$1,623	$1,628	$1,648	$1,524	$1,488
Total debt	**618**	653	865	991	1,158	514	453	464	450	483	498
Book value	**711**	710	709	680	656	641	633	623	769	655	606
Working capital	**97**	56	78	71	74	106	101	126	186	118	(39)
Current ratio	**1.66**	1.32	1.50	1.35	1.38	1.60	1.48	1.56	1.91	1.66	0.89
Cash Flow*											
Cash provided by operating activities	**$ 208**	$ 253	$ 231	$ 287	$ 218	$ 143	$ 241	$ 236	$ 214	$ 190	$ 119
Total capital expenditures	**86**	77	75	87	92	92	137	218	143	101	72
Depreciation, depletion and amortization	**158**	166	174	174	103	100	102	97	96	90	78
Cash dividends paid[h]	**105**	40	39	39	36	35	35	34	30	21	122[f]
Non-GAAP Financial Measures*											
Adjusted EBITDA[e, i]	**268**	312	335	383	252	234	253	113	340	232	187
Free cash flow[j]	**78**	62	103	179	92	19	89	87	74	89	35
Custodial capital spending[k]	**76**	66	61	66	64	50	72	83	72	67	65
Performance Ratios*											
Operating income to sales	**9%**	12%	13%	16%	13%	12%	14%	3%	19%	16%	14%
Return on equity[l]	**7%**	8%	8%	12%	11%	10%	14%	—	20%	11%	8%
Return on assets[l]	**3%**	3%	3%	3%	3%	4%	5%	—	9%	5%	4%
Debt to capital	**47%**	48%	55%	59%	64%	45%	42%	43%	37%	43%	45%
Other*											
Number of employees	**2,200**	2,200	2,300	2,300	2,300	2,300	2,500	2,700	2,900	2,700	2,600
Timberlands, in thousands of acres	**2,107**	2,151	2,267	2,331	2,422	1,447	1,452	1,462	1,473	1,501	1,495
Effective tax rate	**10%**	21%	29%	28%	30%	29%	28%	42%	32%	35%	37%

* *As a result of the 2002 sale of the New Zealand East Coast timber operations, 2001 to 1998 Consolidated Statements of Income and Comprehensive Income, and Consolidated Statements of Cash Flows have been reclassified to present the East Coast operations as a discontinued operation. Additionally, 2001 to 1996 have been restated to reflect the consolidation of two third-party wood chip manufacturers, Georgia Chips and Fulghum Fibres Collins, Inc.*

a) Sales for 2000 to 1996 were reclassified in compliance with Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs."
b) Includes a charge of $125 million ($79 million after tax) related to the closure of the Port Angeles pulp mill and write-off of other non-strategic assets.
c) 2002-1993 have been restated to reflect the June 12, 2003 three-for-two stock split, but not for the 2003 E&P special stock dividend dilution of 15 percent.
d) Includes an after-tax charge to implement AICPA Statement of Position 96-1 related to future environmental monitoring costs.
e) Adjusted EBITDA for 2000 to 1996 has been reclassified to include the non-cash cost of land sales.
f) Includes a $90 million special dividend paid to ITT.
g) Prior to 1994 the company was wholly owned by ITT Corporation.
h) 2003 includes special cash dividend of $61.

i) Adjusted EBITDA is defined as earnings from continuing operations before interest expense, income taxes, depreciation, depletion, amortization, and the non-cash cost of land sales. See page 19 for reconciliation of this non-GAAP measure.
j) Free cash flow is defined as cash provided by operating activities less custodial capital spending, dividends at prior year level, required debt repayments and the tax benefit on exercise of stock options. See page 19 for reconciliation of this non-GAAP measure.
k) Custodial capital spending is defined as capital expenditures, net of proceeds received from retirements, to maintain current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition, and in compliance with regulatory requirements. See page 19 for reconciliation of this non-GAAP measure.
l) Based on income (loss) from continuing operations, including charges for pulp mill dispositions.

Reconciliation of Non-GAAP Measures

Dollar amounts in millions	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Adjusted EBITDA[a]											
Cash provided by operating activities	**$208**	$253	$231	$287	$218	$143	$241	$236	$214	$190	$119
Add: Income tax expense	**6**	15	24	29	29	26	33	(13)	66	38	30
Interest expense	**49**	62	70	87	44	37	28	28	34	31	23
Working capital increases (decreases)	**17**	(6)	6	3	(38)	23	(28)	(45)	64	(26)	38
Other Balance Sheet increases (decreases)	**(12)**	(12)	4	(23)	(1)	5	(21)	(93)	(38)	(1)	(23)
Adjusted EBITDA	**$268**	$312	$335	$383	$252	$234	$253	$113	$340	$232	$187
Free Cash Flow[b]											
Cash provided by operating activities	**$208**	$253	$231	$287	$218	$143	$241	$236	$214	$190	$119
Custodial capital spending	**(76)**	(66)	(61)	(66)	(64)	(50)	(72)	(83)	(72)	(67)	(65)
Purchase of assets previously leased	**(5)**	—	—	—	—	—	—	—	—	—	—
Dividends at prior year level	**(40)**	(40)	(39)	(35)	(35)	(34)	(44)	(32)	(34)	(33)	(17)
Required debt repayments*	**(4)**	(83)	(27)	(7)	(27)	(40)	(36)	(34)	(34)	(1)	(2)
Tax benefit on exercise of stock options	**(5)**	(2)	(1)	—	—	—	—	—	—	—	—
Free Cash Flow	**$ 78**	$ 62	$ 103	$179	$ 92	$ 19	$ 89	$ 87	$ 74	$ 89	$ 35
Custodial Capital Spending[c]											
Capital expenditures, net of sales and retirements	**$ 85**	$ 77	$ 74	$ 86	$ 90	$ 87	$137	$218	$143	$ 101	$ 72
Less: Discretionary spending	**(9)**	(11)	(13)	(20)	(26)	(37)	(65)	(135)	(71)	(34)	(7)
Custodial Capital Spending	**$ 76**	$ 66	$ 61	$ 66	$ 64	$ 50	$ 72	$83	$ 72	$ 67	$ 65

* *The required repayments represent debt that matured and was paid during the period.*

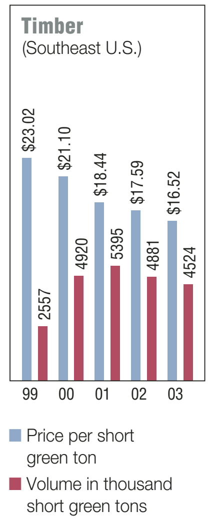
a) Adjusted EBITDA is a non-GAAP measure of operating cash generating capacity of the company.

b) Free cash flow is a non-GAAP measure of cash generated during a period that was available for discretionary capital expenditures, increasing dividends above the prior year level, repurchasing the company's common shares and/or reducing debt within the period. Free cash flow is not necessarily indicative of the free cash flow that may be generated in future periods.

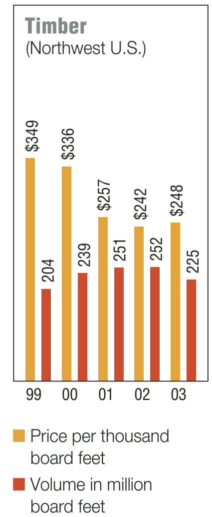
c) Custodial Capital Spending is a non-GAAP measure required to maintain the company's current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition as well as in compliance with regulatory requirements.

Selected Financial Information

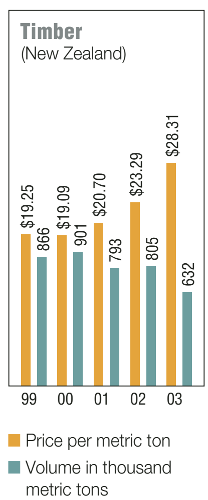
Rayonier sells standing timber from its 2.1 million acres in the U.S. and New Zealand and routinely sells timberland with higher value for recreation, conservation or development uses.



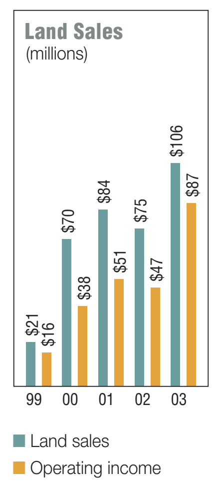
Volume increased after the major timberland purchase in late 1999, while prices remained under pressure.



Prices were stable while volume decreased in 2003 due to a delay of some sales into 2004 to benefit from the company's new REIT status.

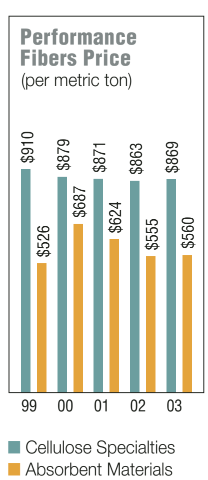


Prices continued to improve while volume declined.

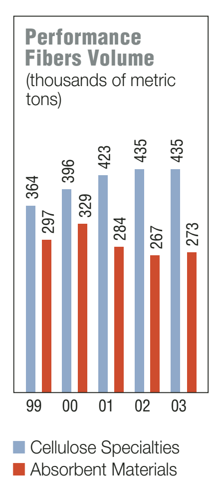


Sales on a routine basis to capture appreciated value have been a strong complement to harvest results.

Rayonier is the world's premier supplier of high performance specialty cellulose fibers used in textiles, film, impact resistant plastics, pharmaceuticals, cosmetics, food products, paints and filters.



Prices for our high-value cellulose specialties and absorbent materials improved slightly.



We continue to enhance our product mix by shifting production to our high-value, higher margin cellulose specialties markets.

Board of Directors

Rand V. Araskog, 72, is the retired Chairman and Chief Executive Officer of ITT Corporation. He is a director of The Hartford Financial Services Group, Inc., ITT Educational Services, Inc. and ITT Industries, Inc. Mr. Araskog is a graduate of the U.S. Military Academy at West Point and attended the Harvard Graduate School of Arts and Sciences.

Ronald M. Gross, 70, is Chairman Emeritus and former Chairman and Chief Executive Officer. He joined Rayonier in 1978 as President and Chief Operating Officer and a director and was elected Chief Executive Officer in 1981 and Chairman in 1984. Upon his retirement, he was named Chairman Emeritus. Mr. Gross also serves as a director of Corn Products International, Inc. and The Brinks Company. He is a graduate of Ohio State University and the Harvard University Graduate School of Business Administration.

Paul G. Kirk, Jr., 66, is of Counsel to Sullivan & Worcester, a law firm. Mr. Kirk is a director of Kirk & Associates, Inc., of which he also is Chairman. He is Chairman of the Board of Directors of the John F. Kennedy Library Foundation. Mr. Kirk also serves as Co-Chairman of the Commission on Presidential Debates and is a director of The Hartford Financial Services Group, Inc. He is a graduate of Harvard College and Harvard Law School.

Thomas I. Morgan, 50, is President, Chief Executive Officer and a director of Hughes Supply, Inc., a diversified wholesale distributor of construction and industrial materials. He joined Hughes in 2001 as President and Chief Operating Officer and was appointed to his current position in 2003. Previously, Mr. Morgan was Chief Executive Officer of EnfoTrust Network, Value America and US Office Products. He serves as a director of Enterprise Florida and is a member of the Florida Council of 100. Mr. Morgan is a graduate of the University of Tennessee.

W. Lee Nutter, 60, is Chairman, President and Chief Executive Officer. He joined Rayonier in 1967 and was elected Vice President in 1984, Senior Vice President in 1986, Executive Vice President in 1987, President and Chief Operating Officer and a director in 1996 and was elected to his present position effective January 1, 1999. Mr. Nutter serves on the Board of Directors of Republic Services, Inc. and is a member of the North Florida Regional Board of SunTrust Bank. He is a graduate of the University of Washington and the Harvard University Graduate School of Business Administration Advanced Management Program.

Katherine D. Ortega, 69, is the former Treasurer of the United States. Ms. Ortega currently serves on the Boards of Directors of The Kroger Co. and the Washington Mutual Investors Fund. She is a graduate of Eastern New Mexico University and holds three honorary Doctor of Law Degrees and one honorary Doctor of Social Science Degree.

Burnell R. Roberts, 76, is the retired Chairman of the Board and director, Sweetheart Holdings, Inc. and Sweetheart Cup Company. He also is former Chairman and Chief Executive Officer of The Mead Corporation. He serves as a director of p4A.com Ltd., and is a trustee of Granum Value Fund. He is a graduate of the University of Wisconsin and the Harvard University Graduate School of Business Administration.

Carl S. Sloane, 67, is Professor Emeritus, Harvard University Graduate School of Business Administration and Chairman of the Board, Beth Israel Deaconess Medical Center. He is a director of MedSource Technologies, Inc. and The Brinks Company. He is a graduate of Harvard College and the Harvard University Graduate School of Business Administration.

Ronald Townsend, 62, is a communications consultant and retired President of Gannett Television Group. Mr. Townsend currently serves as a director of ALLTEL Corporation, Bank of America Corporation and Winn-Dixie Stores, Inc. He attended The City University of New York, Bernard Baruch.

Gordon I. Ulmer, 71, is the retired President of the Bank of New England Corporation. He is a director of The Hartford Financial Services Group, Inc. Mr. Ulmer is a graduate of Middlebury College, the American Institute of Banking and the Harvard University Graduate School of Business Administration Advanced Management Program and attended New York University's Graduate School of Engineering.

Board Committees

Audit Committee
Paul G. Kirk, Jr., Chairman
Katherine D. Ortega
Burnell R. Roberts
Carl S. Sloane

Finance Committee
Ronald M. Gross, Chairman
Rand V. Araskog
W. Lee Nutter
Gordon I. Ulmer

Compensation and Management Development Committee
Rand V. Araskog, Chairman
Paul G. Kirk, Jr.
Ronald Townsend
Gordon I. Ulmer

Nominating and Corporate Governance Committee
Ronald Townsend, Chairman
Katherine D. Ortega
Burnell R. Roberts
Carl S. Sloane

Corporate Officers

W. Lee Nutter, 60
Chairman, President and
Chief Executive Officer (36)

Paul G. Boynton, 39
Senior Vice President,
Performance Fibers (5)

Timothy H. Brannon, 56
Senior Vice President,
Forest Resources and
Wood Products (31)

John P. O'Grady, 58
Senior Vice President,
Administration (28)*

Gerald J. Pollack, 62
Senior Vice President and
Chief Financial Officer (21)

Parag Bhansali, 42
Vice President,
Investor Relations (4)

Royce B. Daniel, 52
Vice President,
Research and Development (29)

William D. Ericksen, 59
Vice President,
Forest Resources and
Wood Procurement (32)

W. Edwin Frazier, 46
Vice President, Governance and
Corporate Secretary (5)

Jay A. Fredericksen, 58
Vice President,
Corporate Relations (27)

Michael R. Herman, 41
Vice President and
General Counsel (**)

H. Edwin Kiker, 47
Vice President,
Internal Audit (1)

Jack M. Kriesel, 49
Vice President and General Manager
Jesup Performance Fibers Mill (25)

Charles Margiotta, 51
Vice President,
Corporate Development and
Strategic Planning (27)

Eric W. Schrumm, 56
Vice President,
Information Technology (9)

Hans E. Vanden Noort, 45
Vice President and
Corporate Controller (2)

Macdonald Auguste, 55
Treasurer (28)

( ) Years of service with Rayonier
Average length of service: 18 years

(*) Includes ITT service

(**) Less than one year

Shareholder Information

Corporate Headquarters
Rayonier
50 North Laura Street
Jacksonville, FL 32202
904-357-9100
www.rayonier.com

About Your Shares
Rayonier common shares are listed on the New York Stock Exchange under the ticker symbol RYN.

Shareholders of Record
Rayonier had 13,280 shareholders of record as of March 1, 2004.

Common Stock Activity

	High*	Low*	Composite Volume 000s*	Regular Dividend
2003				
Fourth Quarter	**41.75**	**33.95**	**19070**	**$.27**
Third Quarter	**34.84**	**27.35**	**32512**	**.27**
Second Quarter	**30.32**	**24.35**	**13920**	**.27**
First Quarter	**26.35**	**22.55**	**11989**	**.24** **
2002				
Fourth Quarter	26.20	20.61	15061	$.24 **
Third Quarter	28.87	22.84	19048	.24 **
Second Quarter	32.95	26.77	18303	.24 **
First Quarter	30.47	26.40	10348	.24 **

* Prices and volumes have been restated to reflect the June 12, 2003 three-for-two stock split and the December 19, 2003 special E&P dividend.

**Restated to reflect the June 12, 2003 three-for-two stock split.

Dividend Reinvestment
The Rayonier Inc. Automatic Dividend Reinvestment and Cash Payment Plan is available to all registered shareholders. For information on how to participate, contact The Bank of New York, 800-659-0158. Outside the U.S., call collect, 610-382-7833.

Transfer Agent and Registrar
For essential services such as change of address, lost certificates or dividend checks, or change in registered ownership, write or call The Bank of New York, Shareholder Relations Department, PO Box 11258, Church Street Station, New York, NY 10286-1258. Telephone, 800-659-0158. Outside the U.S., call collect, 610-382-7833.

Please include your name, address, account number and telephone number with all correspondence.

Send certificates for transfer and address changes to The Bank of New York, Receive and Deliver Department, PO Box 11002, Church Street Station, New York, NY 10286-1002.

Investor Relations Program
For questions concerning your common shares other than those noted above, write or call the Investor Relations Department, Rayonier, 50 North Laura Street, Jacksonville, FL 32202. Telephone, 904-357-9100. You may also e-mail us at investorrelations@rayonier.com.

Additional copies of this Annual Report and copies of Rayonier's Form 10-K (without exhibits) are available, at no charge, upon request from the Investor Relations Department at the above address. You may also request these materials by calling toll free, 800-RYN-7611.

In order to reduce costs and expedite the delivery of information to shareholders, Rayonier does not automatically mail quarterly reports to shareholders. You can listen to a recording of our most recent financial results and request a copy by fax or mail, by calling 800-RYN-7611. Quarterly results are available the same day they are announced.

Web Sites
Visit us online at www.rayonier.com for more information about our businesses, products and services, and governance practices as well as to access our 2003 Annual Report, press releases, earnings and dividend news, SEC filings, and information on upcoming events.

For information on transfer agent-related services, including frequently asked questions, visit The Bank of New York's Web site at www.stockbny.com.

Annual Meeting
The Annual Meeting of Rayonier Shareholders will be held at 4 p.m., Thursday, May 20, 2004, at the Omni Hotel, 245 Water Street, Jacksonville, FL.

Design: Jack Hough Associates/Inergy Group, Wilton, CT

Rayonier

Rayonier
50 North Laura Street
Jacksonville, FL 32202
www.rayonier.com