

# POTLATCH CORPORATION

## Fourth Quarter 2008 Conference Call Supplemental Information

Mike Covey

Chairman, President and Chief Executive Officer

Eric Cremers

Vice President, Finance and Chief Financial Officer



## Forward-Looking Statements

This presentation contains certain forward-looking statements within the meaning of the Private Litigation Reform Act of 1995 as amended, including without limitation statements about future company performance, value of the company and its shares of stock, the nature of the company's earnings, direction of markets, facility shutdowns, log pricing, future harvest levels and their relation to log pricing trends, timberland values, efforts to minimize losses in our Wood Products segment, fuel costs, future revenues from real estate transactions, entry into conservation easements, corporate administrative expenses, capital spending, interest expense, tax rates, tax basis of land to be sold, prospects for each of our business segments, funds available for distribution (FAD), quarterly dividend levels, and uses of proceeds from future land sales, including debt repayment, repurchase of shares of the company's stock and funding of dividend payments. These forward-looking statements are based on current expectations, estimates, assumptions and projections that are subject to change, and actual results may differ materially from the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, changes in timberland values; changes in timber harvest levels on the company's lands; changes in timber prices; changes in policy regarding governmental timber sales; changes in the United States and international economies; changes in the level of construction activity; changes in tariffs, quotas and trade agreements involving wood products; changes in demand for Potlatch's products; changes in production and production capacity in the forest products industry; competitive pricing pressures for the company's products; unanticipated manufacturing disruptions; changes in general and industry-specific environmental laws and regulations; unforeseen environmental liabilities or expenditures; weather conditions; changes in raw material and other costs; the ability to satisfy complex rules in order to remain qualified as a REIT; changes in tax laws that could reduce the benefits associated with REIT status; and other risks and uncertainties described from time to time in the company's public filings with the Securities and Exchange Commission. The company does not undertake to update any forward-looking statements.

**FOURTH QUARTER 2008 SUMMARY**  
*(Dollars in Thousands)*  
*(Unaudited)*

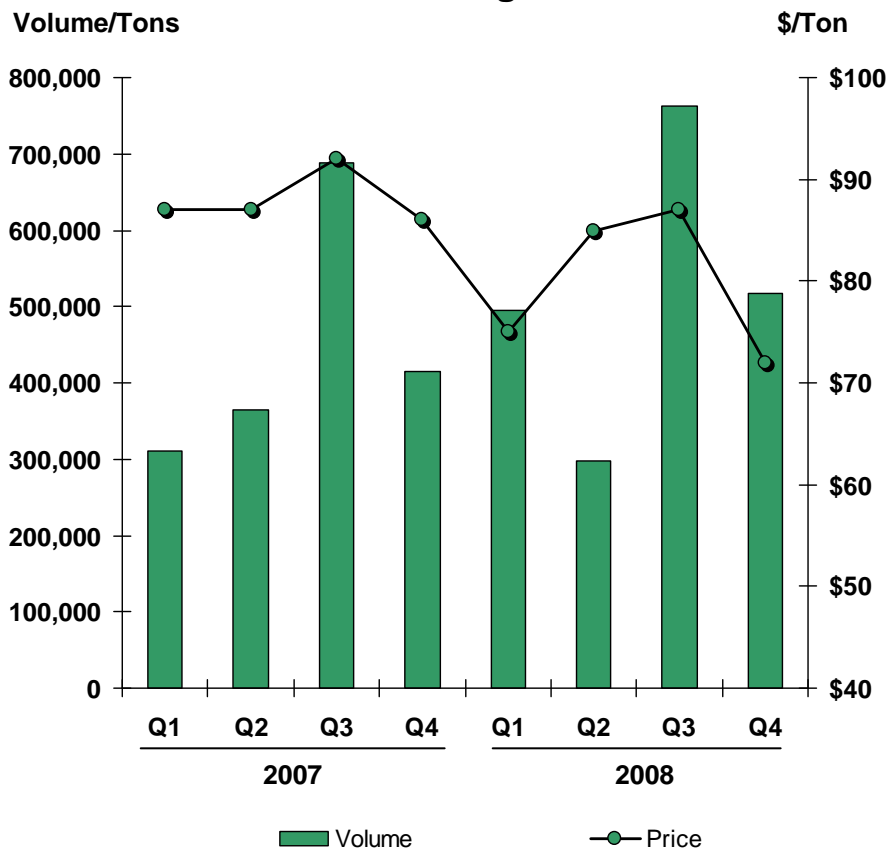
	<u>4th Quarter 2008</u>	<u>3rd Quarter 2008</u>	<u>2nd Quarter 2008</u>	<u>1st Quarter 2008</u>	<u>4th Quarter 2007</u>	<u>Twelve Months Ended 2008</u>	<u>2007</u>
<b><u>Operating Income</u></b>							
Resource	\$ 15,906	\$ 30,746	\$ 12,161	\$ 17,195	\$ 10,551	\$ 76,008	\$ 81,783
Real Estate	298	3,225	11,316	16,651	7,883	31,490	17,274
Wood Products	(11,414)	1,585	2,604	(6,450)	(4,974)	(13,675)	4,196
Eliminations	<u>(908)</u>	<u>(3,337)</u>	<u>1,555</u>	<u>1,673</u>	<u>3,328</u>	<u>(1,017)</u>	<u>1,348</u>
	3,882	32,219	27,636	29,069	16,788	92,806	104,601
Corporate	<u>(8,975)</u>	<u>(13,674)</u>	<u>(12,277)</u>	<u>(16,851)</u>	<u>(15,968)</u>	<u>(51,777)</u>	<u>(51,478)</u>
Earnings (loss) from continuing operations before taxes	(5,093)	18,545	15,359	12,218	820	41,029	53,123
Benefit for taxes	<u>(10,519)</u>	<u>(5,883)</u>	<u>(2,695)</u>	<u>(8,716)</u>	<u>(6,691)</u>	<u>(27,813)</u>	<u>(19,208)</u>
<b>Earnings from continuing operations</b>	<b><u>5,426</u></b>	<b><u>24,428</u></b>	<b><u>18,054</u></b>	<b><u>20,934</u></b>	<b><u>7,511</u></b>	<b><u>68,842</u></b>	<b><u>72,331</u></b>
plus: Interest expense, net of interest income	5,176	4,759	5,266	4,953	4,851	20,154	15,432
Benefit for taxes	(10,519)	(5,883)	(2,695)	(8,716)	(6,691)	(27,813)	(19,208)
Depreciation, depletion & amortization (DD&A)	8,127	9,489	5,130	7,407	7,836	30,153	26,516
Basis of real estate sold	<u>1,335</u>	<u>1,995</u>	<u>2,659</u>	<u>3,134</u>	<u>2,575</u>	<u>9,123</u>	<u>3,552</u>
<b>Earnings before interest expense, taxes, depreciation, depletion and amortization, and basis of real estate sold (EBITDDA) *</b>	<b><u>\$ 9,545</u></b>	<b><u>\$ 34,788</u></b>	<b><u>\$ 28,414</u></b>	<b><u>\$ 27,712</u></b>	<b><u>\$ 16,082</u></b>	<b><u>\$ 100,459</u></b>	<b><u>\$ 98,623</u></b>
<b>Funds from continuing operations</b>	<b><u>\$ 14,888</u></b>	<b><u>\$ 35,912</u></b>	<b><u>\$ 25,843</u></b>	<b><u>\$ 31,475</u></b>	<b><u>\$ 17,922</u></b>	<b><u>\$ 108,118</u></b>	<b><u>\$ 102,399</u></b>
Discontinued operations:							
Gain (loss) on disposal of discontinued operations, net of tax	\$ 26	\$ (236)	\$ (559)	\$ (11,651)	\$ -	\$ (12,420)	\$ (32,983)
Gain (loss) from discontinued operations, net of tax	(9,802)	1,057	3,984	976	3,734	(3,785)	17,084
DD&A	<u>9,747</u>	<u>11,580</u>	<u>11,776</u>	<u>12,398</u>	<u>12,712</u>	<u>45,501</u>	<u>56,897</u>
	<u>(29)</u>	<u>12,401</u>	<u>15,201</u>	<u>1,723</u>	<u>16,446</u>	<u>29,296</u>	<u>40,998</u>
<b>Net earnings (loss)</b>	<b><u>\$ (4,350)</u></b>	<b><u>\$ 25,249</u></b>	<b><u>\$ 21,479</u></b>	<b><u>\$ 10,259</u></b>	<b><u>\$ 11,245</u></b>	<b><u>\$ 52,637</u></b>	<b><u>\$ 56,432</u></b>
<b>Diluted earnings per common share from continuing operations</b>	<b><u>\$ 0.14</u></b>	<b><u>\$ 0.61</u></b>	<b><u>\$ 0.45</u></b>	<b><u>\$ 0.53</u></b>	<b><u>\$ 0.19</u></b>	<b><u>\$ 1.73</u></b>	<b><u>\$ 1.84</u></b>
<b>Funds from operations (FFO) *</b>	<b><u>\$ 14,859</u></b>	<b><u>\$ 48,313</u></b>	<b><u>\$ 41,044</u></b>	<b><u>\$ 33,198</u></b>	<b><u>\$ 34,368</u></b>	<b><u>\$ 137,414</u></b>	<b><u>\$ 143,397</u></b>

Certain prior period amounts have been reclassified to conform to the current period presentation.

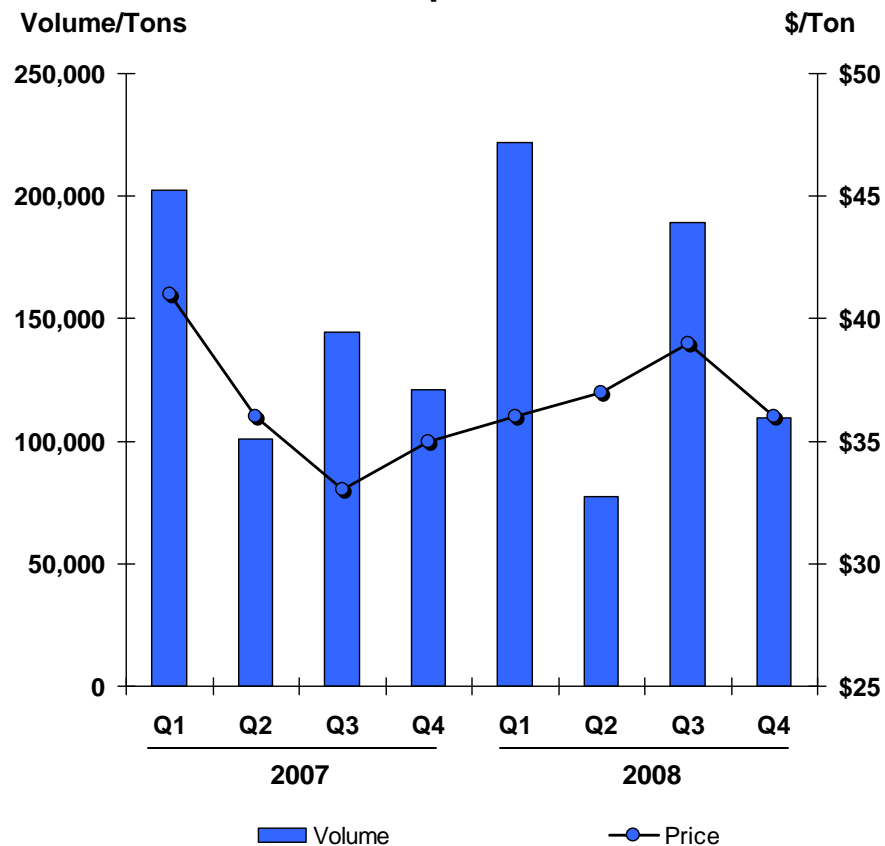
\* Non-GAAP measure - See pages 14 - 16 for reconciliation to GAAP and definition.

# Northern Region - Volume and Pricing

## Sawlog



## Pulpwood

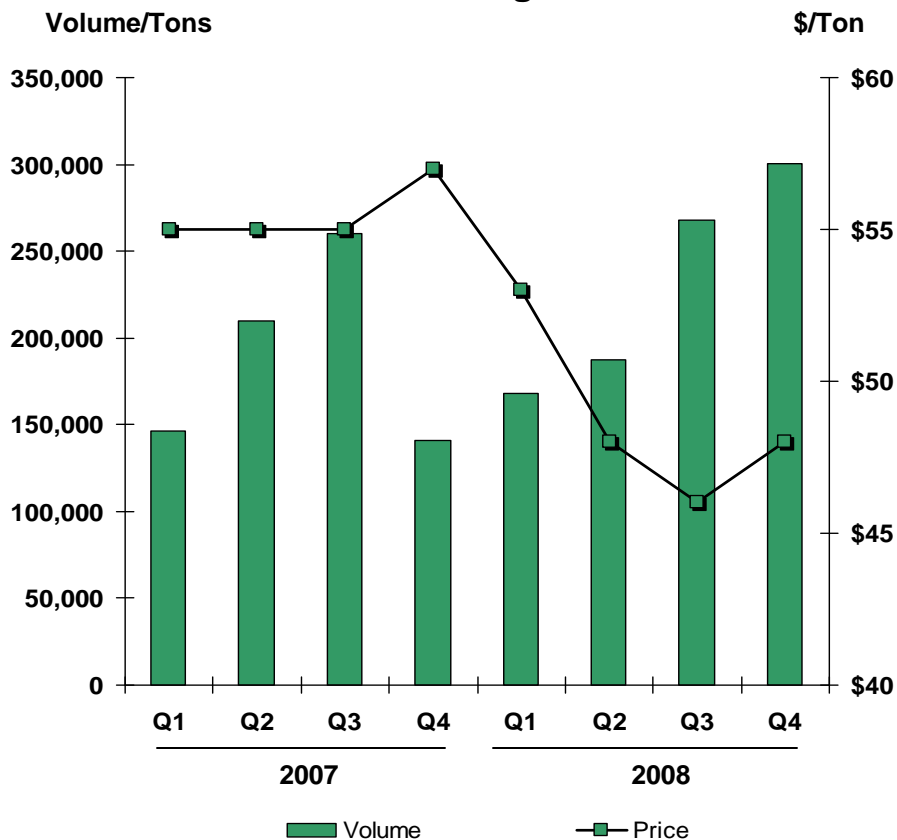


\* Volumes include tonnage produced from company owned fee land, while pricing data includes revenue generated from both company owned fee land and non-fee stumpage purchased from third parties.

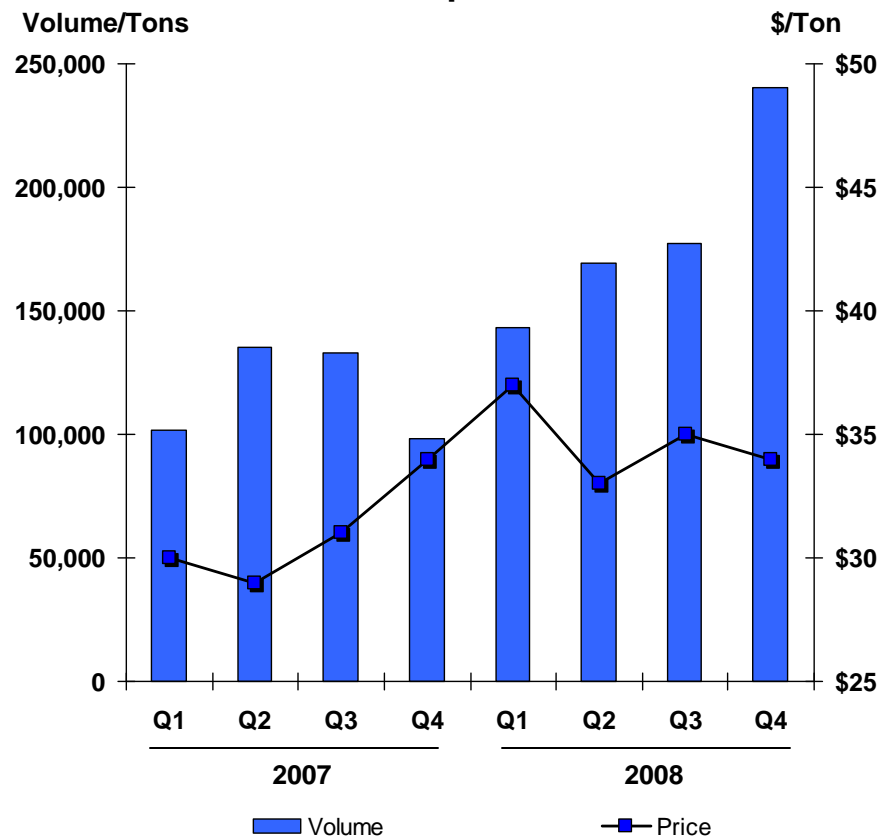


## Southern Region – Volume and Pricing

### Sawlog



### Pulpwood

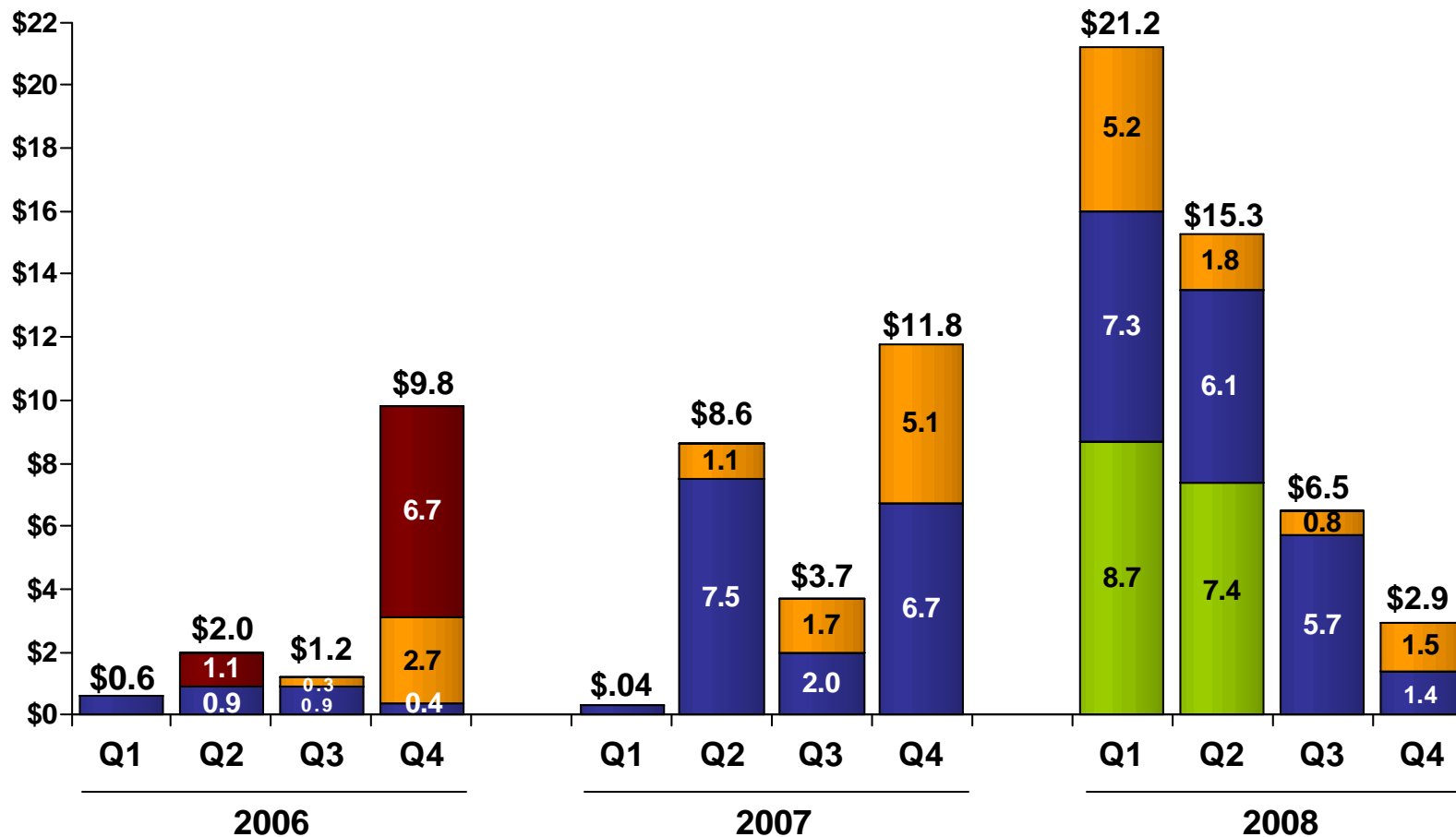


\* Volumes include tonnage produced from company owned fee land, while pricing data includes revenue generated from both company owned fee land and non-fee stumpage purchased from third parties.

# Potlatch Real Estate - Revenues

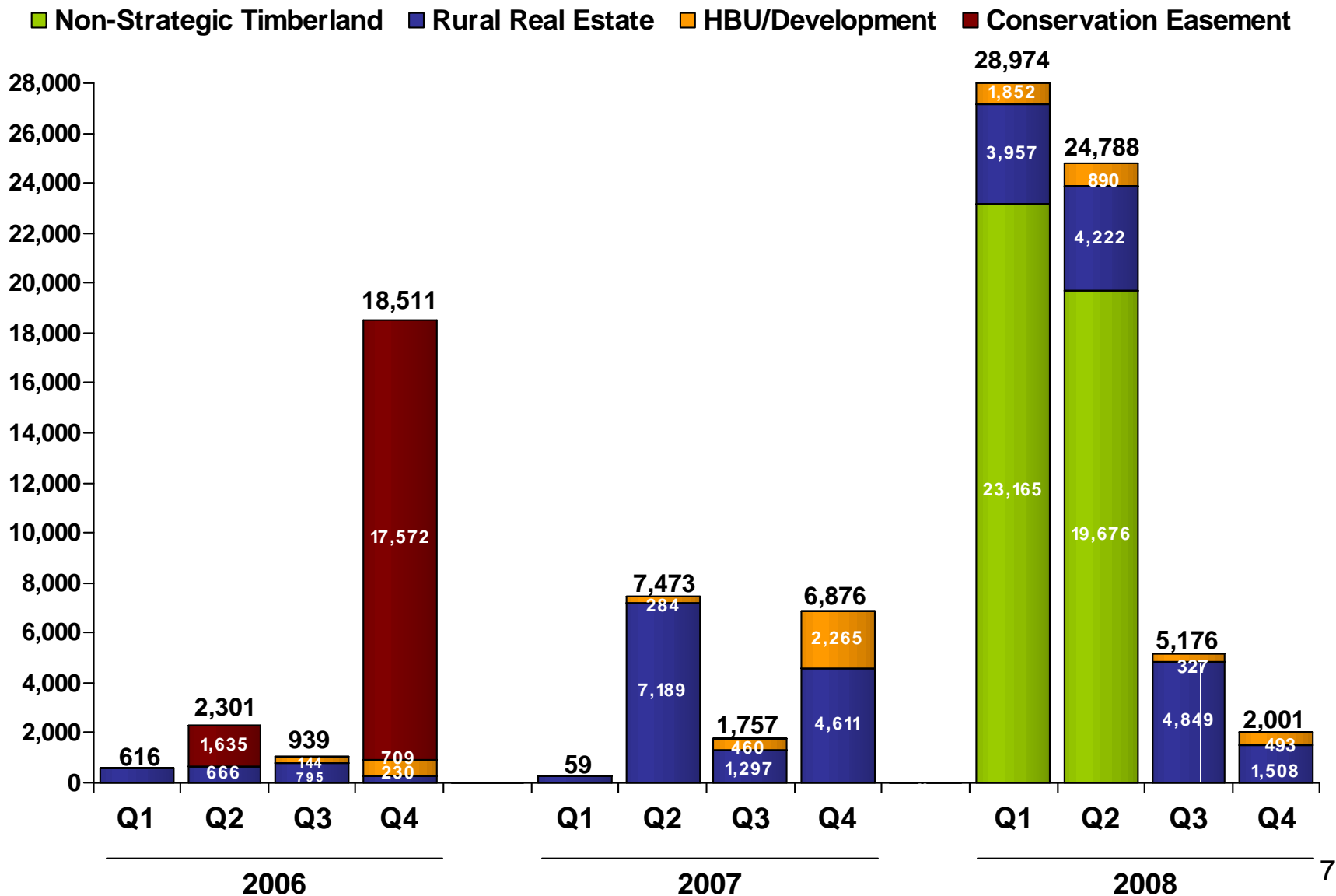
■ Non-Strategic Timberland 
 ■ Rural Real Estate 
 ■ HBU/Development 
 ■ Conservation Easement

\$/Millions



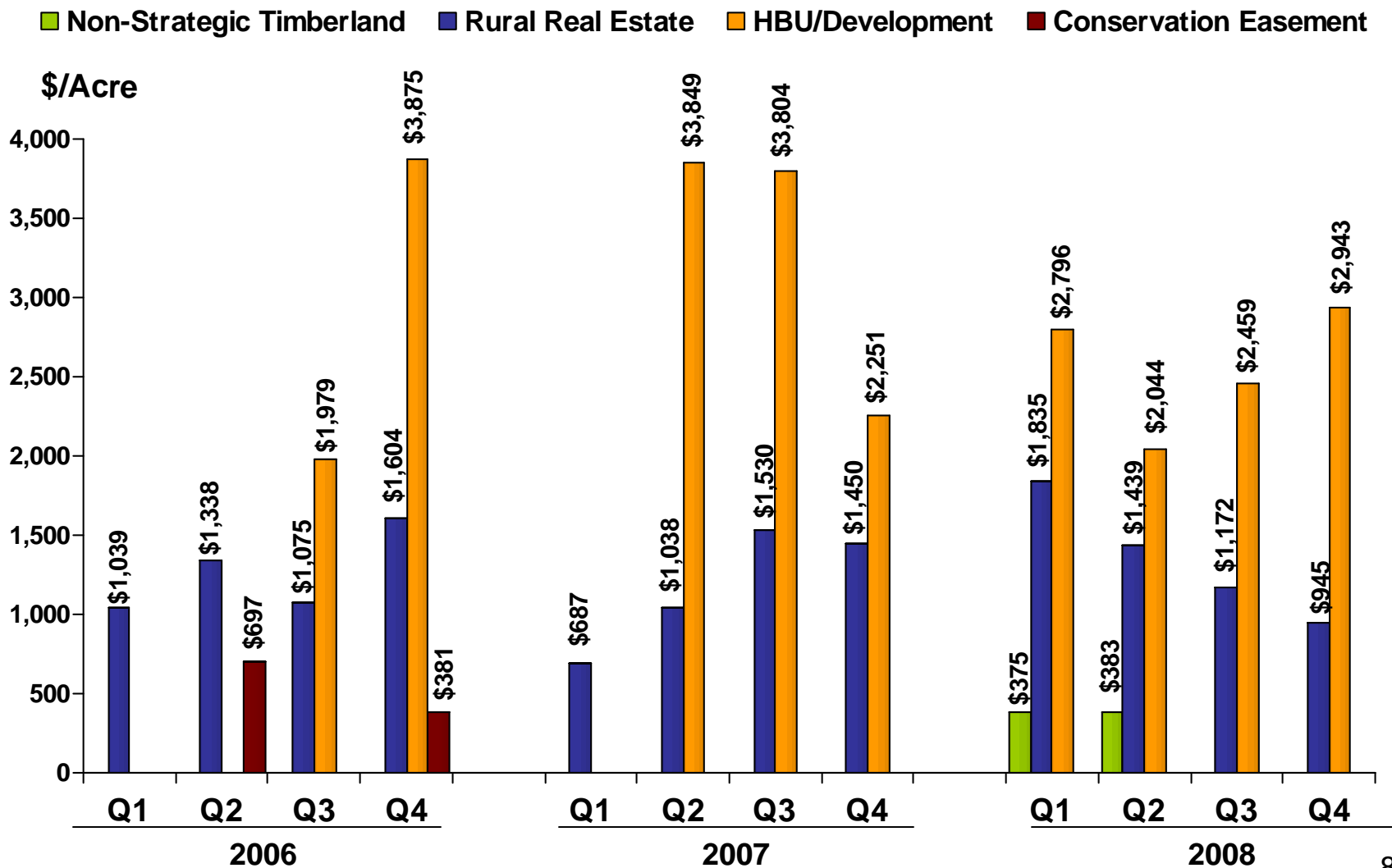
Note: Q4 2008 Real Estate HBU revenues include a \$250,000 building sale.

## Potlatch Real Estate – Acres Sold



Note: Q4 2008 'Acres Sold' excludes building sale.

## Potlatch Real Estate - Sales Prices Per Acre

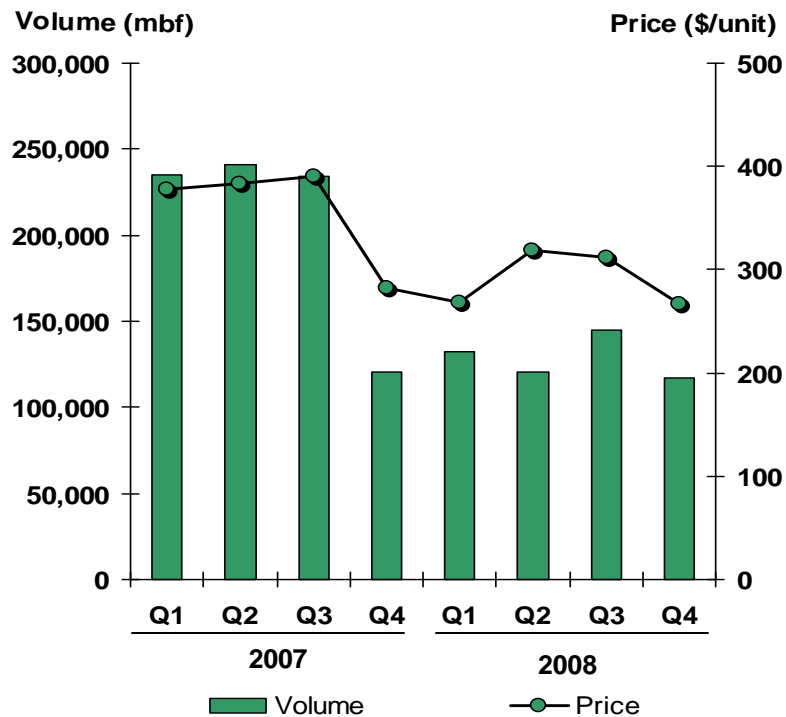


Note: Q4 2008 'Sales Price per Acre' excludes building sale.

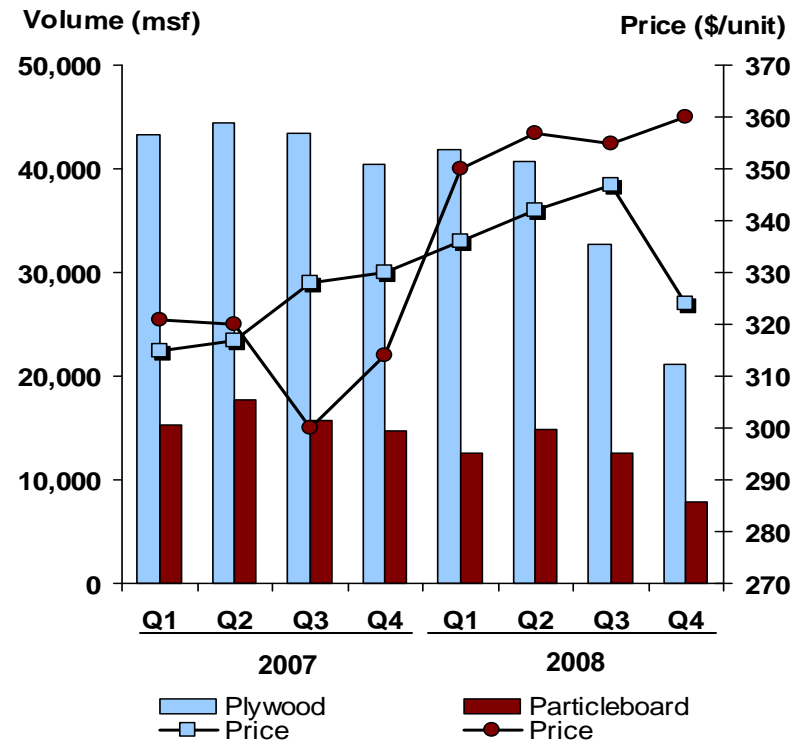


# Lumber and Plywood/Particleboard - Sales Prices and Shipments

### Lumber



### Plywood / Particleboard



**VARIANCE ANALYSES - INCREASE (DECREASE) IN EARNINGS FROM CONTINUING OPERATIONS BEFORE TAXES**  
**(Dollars in Thousands)**  
**(Unaudited)**

	<b>4th Quarter 2008 vs. 3rd Quarter 2008</b>	<b>4th Quarter 2008 vs. 4th Quarter 2007</b>	<b>Twelve Months 2008 vs. 2007</b>
<b>Resource</b>	<b>(\$14,840)</b>	<b>\$5,355</b>	<b>(\$5,775)</b>
Volume	(21,571)	6,529	(16,522)
Price	(8,700)	(7,364)	(16,071)
Restructuring charge	-	-	2,691
Costs and Other	15,431	6,190	24,127
<b>Real Estate</b>	<b>(\$2,927)</b>	<b>(\$7,585)</b>	<b>\$14,216</b>
<b>Wood products</b>	<b>(\$12,999)</b>	<b>(\$6,440)</b>	<b>(\$17,871)</b>
Volume	(14,376)	(9,396)	(22,067)
Price	(5,724)	(1,522)	(9,750)
Costs and other	7,101	4,478	13,946
<b>Eliminations</b>	<b>\$2,429</b>	<b>(\$4,236)</b>	<b>(\$2,365)</b>
<b>Corporate</b>	<b>\$4,699</b>	<b>\$6,993</b>	<b>(\$299)</b>
<b>Decrease in earnings from continuing operations before taxes</b>	<b>(\$23,638)</b>	<b>(\$5,913)</b>	<b>(\$12,094)</b>

Certain prior period amounts have been reclassified to conform to the current period presentation.

**RESOURCE  
VOLUMES AND SALES PRICES/UNIT  
(Unaudited)**

	<u>4th Quarter 2008</u>	<u>3rd Quarter 2008</u>	<u>2nd Quarter 2008</u>	<u>1st Quarter 2008</u>	<u>4th Quarter 2007</u>	<u>Twelve Months Ended 2008</u>	<u>2007</u>
<b>Fee Volume (tons)</b>							
Northern region							
Sawlog	517,641	762,352	297,809	494,815	415,153	2,072,617	1,778,490
Pulpwood	109,287	189,082	77,394	221,634	120,852	597,397	568,458
Stumpage	298	-	96	8,046	24,086	8,440	46,556
Total	<u>627,226</u>	<u>951,434</u>	<u>375,299</u>	<u>724,495</u>	<u>560,090</u>	<u>2,678,454</u>	<u>2,393,503</u>
Southern region							
Sawlog	300,460	267,774	187,201	167,819	141,094	923,254	757,035
Pulpwood	240,456	177,337	169,480	143,443	98,574	730,716	468,774
Stumpage	4,927	5,389	29,898	5,059	40,433	45,273	312,574
Total	<u>545,843</u>	<u>450,500</u>	<u>386,579</u>	<u>316,321</u>	<u>280,100</u>	<u>1,699,243</u>	<u>1,538,384</u>
<b>Sales Volume (tons)</b>							
Northern region							
Sawlog	517,641	762,354	297,809	494,815	532,117	2,072,619	2,256,925
Pulpwood	109,287	189,082	77,394	221,634	136,335	597,397	640,386
Stumpage	298	-	96	8,046	24,086	8,440	46,556
Total	<u>627,226</u>	<u>951,436</u>	<u>375,299</u>	<u>724,495</u>	<u>692,538</u>	<u>2,678,456</u>	<u>2,943,867</u>
Southern region							
Sawlog	300,460	273,640	187,201	169,136	141,092	930,437	773,689
Pulpwood	240,456	178,316	169,480	143,443	98,574	731,695	534,244
Stumpage	4,927	5,389	29,898	5,059	40,433	45,273	312,574
Total	<u>545,843</u>	<u>457,345</u>	<u>386,579</u>	<u>317,638</u>	<u>280,098</u>	<u>1,707,405</u>	<u>1,620,507</u>
<b>Sales Prices/Unit (\$ per ton)</b>							
Northern region							
Sawlog	\$ 72	\$ 87	\$ 85	\$ 75	\$ 86	\$ 80	\$ 88
Pulpwood	36	39	37	36	35	37	37
Stumpage	12	-	6	23	70	22	55
Weighted Average	<u>\$ 65</u>	<u>\$ 78</u>	<u>\$ 75</u>	<u>\$ 63</u>	<u>\$ 75</u>	<u>\$ 70</u>	<u>\$ 76</u>
Southern region							
Sawlog	\$ 48	\$ 46	\$ 48	\$ 53	\$ 57	\$ 48	\$ 56
Pulpwood	34	35	33	37	34	35	31
Stumpage	24	46	18	19	14	22	29
Weighted Average	<u>\$ 41</u>	<u>\$ 42</u>	<u>\$ 39</u>	<u>\$ 45</u>	<u>\$ 43</u>	<u>\$ 42</u>	<u>\$ 42</u>

**WOOD PRODUCTS**  
**VOLUMES AND SALES PRICES/UNIT**  
*(Unaudited)*

	<u>4th Quarter 2008</u>	<u>3rd Quarter 2008</u>	<u>2nd Quarter 2008</u>	<u>1st Quarter 2008</u>	<u>4th Quarter 2007</u>	<u>Twelve Months Ended 2008</u>	<u>2007</u>
<b>Shipment Information</b>							
Lumber (m. bd. ft.)	117,245	145,190	120,484	131,895	120,439	514,814	533,271
Plywood (m. sq. ft., 3/8" basis)	21,175	32,719	40,749	41,921	40,468	136,564	171,678
Particleboard (m. sq. ft., 3/4" basis)	7,897	12,550	14,846	12,639	14,677	47,932	63,448
<b>Sales Prices/Unit (\$ per unit)</b>							
Lumber (m. bd. ft.)	267	312	319	268	282	292	319
Plywood (m. sq. ft., 3/8" basis)	324	347	342	336	330	338	322
Particleboard (m. sq. ft., 3/4" basis)	360	355	357	350	314	355	314

**TAX PROVISION (BENEFIT) FROM CONTINUING OPERATIONS**  
*(Dollars in Thousands)*  
*(Unaudited)*

	<u>4th Quarter 2008</u>	<u>3rd Quarter 2008</u>	<u>2nd Quarter 2008</u>	<u>1st Quarter 2008</u>	<u>4th Quarter 2007</u>	<u>Twelve Months Ended 2008</u>	<u>Twelve Months Ended 2007</u>
Current year REIT, net	\$ 313	\$ 822	\$ 343	\$ 66	\$ (64)	\$ 1,544	\$ -
Current year TRS	(10,832)	(6,705)	(3,038)	(8,782)	(5,966)	(29,357)	(15,588)
Other adjustments	-	-	-	-	(661)	-	(3,620)
Tax benefit from continuing operations	<u>(10,519)</u>	<u>(5,883)</u>	<u>(2,695)</u>	<u>(8,716)</u>	<u>(6,691)</u>	<u>(27,813)</u>	<u>(19,208)</u>
Discontinued operations:							
Prescott Lumber operations	(420)	(147)	(141)	(1,306)	(1,023)	(2,014)	(2,227)
Prescott Lumber asset write-down	16	(151)	(357)	(7,449)	-	(7,941)	-
Clearwater Paper	(2,851)	822	2,404	1,227	3,335	1,602	15,458
Hybrid Poplar - Boardman operations	-	-	-	-	59	-	(42)
Hybrid Poplar - Boardman sale	-	-	-	-	-	-	(2,791)
Total tax benefit	<u>\$ (13,774)</u>	<u>\$ (5,359)</u>	<u>\$ (789)</u>	<u>\$ (16,244)</u>	<u>\$ (4,320)</u>	<u>\$ (36,166)</u>	<u>\$ (8,810)</u>

Certain prior period amounts have been reclassified to conform to the current period presentation.

**RECONCILIATION OF NON-GAAP MEASURES**  
*(Dollars in Thousands)*  
*(Unaudited)*

	<u>4th Quarter 2008</u>	<u>3rd Quarter 2008</u>	<u>2nd Quarter 2008</u>	<u>1st Quarter 2008</u>	<u>4th Quarter 2007</u>	<u>Twelve Months Ended 2008</u>	<u>Twelve Months Ended 2007</u>
<b>Earnings before interest, taxes, depreciation, depletion and amortization (EBITDDA):</b>							
GAAP net earnings (loss)	\$ (4,350)	\$ 25,249	\$ 21,479	\$ 10,259	\$ 11,245	\$ 52,637	\$ 56,432
Interest expense, net of interest income	5,176	4,759	5,266	4,953	4,851	20,154	15,432
Benefit for income taxes	(10,519)	(5,883)	(2,695)	(8,716)	(6,691)	(27,813)	(19,208)
Depreciation, depletion and amortization	8,127	9,489	5,130	7,407	7,836	30,153	26,516
Basis of real estate sold	1,335	1,995	2,659	3,134	2,575	9,123	3,552
Loss (gain) from discontinued operations, net of tax	9,776	(821)	(3,425)	10,675	(3,734)	16,205	15,899
<b>EBITDDA *</b>	<b><u>\$ 9,545</u></b>	<b><u>\$ 34,788</u></b>	<b><u>\$ 28,414</u></b>	<b><u>\$ 27,712</u></b>	<b><u>\$ 16,082</u></b>	<b><u>\$100,459</u></b>	<b><u>\$ 98,623</u></b>

Certain prior period amounts have been reclassified to conform to the current period presentation.

\* Non-GAAP measure - See page 16 for definition.



**RECONCILIATION OF NON-GAAP MEASURES**  
*(Dollars in Thousands)*  
*(Unaudited)*

	<u>4th Quarter 2008</u>	<u>3rd Quarter 2008</u>	<u>2nd Quarter 2008</u>	<u>1st Quarter 2008</u>	<u>4th Quarter 2007</u>	<u>Twelve Months Ended 2008</u>	<u>2007</u>
<b>Funds from Operations (FFO):</b>							
GAAP net earnings (loss)	\$ (4,350)	\$ 25,249	\$ 21,479	\$ 10,259	\$ 11,245	\$ 52,637	\$ 56,432
Depreciation, depletion and amortization from continuing operations	8,127	9,489	5,130	7,407	7,836	30,153	26,516
Basis of real estate sold	1,335	1,995	2,659	3,134	2,575	9,123	3,552
Loss (gain) from discontinued operations, net of tax	9,776	(821)	(3,425)	10,675	(3,734)	16,205	15,899
<b>Funds from continuing operations</b>	<b><u>\$ 14,888</u></b>	<b><u>\$ 35,912</u></b>	<b><u>\$ 25,843</u></b>	<b><u>\$ 31,475</u></b>	<b><u>\$ 17,922</u></b>	<b><u>\$ 108,118</u></b>	<b><u>\$ 102,399</u></b>
Gain (loss) from discontinued operations, net of tax	(9,776)	821	3,425	(10,675)	3,734	(16,205)	(15,899)
Depreciation, depletion and amortization from discontinued operations	9,747	11,580	11,776	12,398	12,712	45,501	56,897
<b>Funds from Operations *</b>	<b><u>\$ 14,859</u></b>	<b><u>\$ 48,313</u></b>	<b><u>\$ 41,044</u></b>	<b><u>\$ 33,198</u></b>	<b><u>\$ 34,368</u></b>	<b><u>\$ 137,414</u></b>	<b><u>\$ 143,397</u></b>

Certain prior period amounts have been reclassified to conform to the current period presentation.

\* Non-GAAP measure - See page 16 for definition.

## Definitions of Non-GAAP Measures

**EBITDDA** is a non-GAAP measure that management uses to evaluate the cash generating capacity of the company. The most directly comparable GAAP measure is net earnings. EBITDDA, as we define it, is net earnings from continuing operations adjusted for net interest expense, provision (benefit) for income taxes, depreciation, depletion and amortization, and the basis of real estate sold. It should not be considered as an alternative to net earnings computed under GAAP.

**Funds from Operations (FFO)** is a non-GAAP measure that is commonly used by REITs in the real estate industry. The most directly comparable GAAP measure is net earnings. FFO, as we define it, is presented as a supplemental financial measure. We do not use FFO as, nor should it be considered to be, an alternative to net earnings computed under GAAP as an indicator of our operating performance, or as an alternative to cash from operating activities computed under GAAP as an indicator of our ability to fund our cash needs. FFO, as we define it, may not be comparable with measures of similar titles reported by other companies. We define FFO as net earnings, plus depreciation, depletion and amortization and the basis of real estate sold from continuing operations minus the loss from discontinued operations, and plus depreciation, depletion and amortization from discontinued operations. Management believes that FFO is a meaningful supplemental measure of our operating performance because historical cost accounting for assets such as our manufacturing facilities and timberlands assumes that the value of such assets diminishes predictably over time. However, the values of our manufacturing facilities and timberlands have historically risen and fallen based on market conditions for the products we manufacture and for timber and timberlands. Management also considers the FFO measure in determining, among other things, quarterly and annual distribution rates to recommend to our board of directors, future levels of capital spending and debt repayment. We disclose this supplemental financial measure to enable investors to align their analysis and evaluation of our operating results along the same lines as management uses in planning and executing our business strategy.





[WWW.POTLATCHCORP.COM](http://WWW.POTLATCHCORP.COM)