

# POTLATCH CORPORATION

## Fourth Quarter 2007 Conference Call Supplemental Information

Mike Covey  
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Chairman, President and Chief Executive Officer  
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, future earnings and cash flow, future land sales and closings, like-kind exchanges and tax consequences, log pricing, direction of markets and harvest volumes. 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 exchange rates between the U.S. dollar and other currencies; changes in the level of construction activity; changes in tariffs, quotas and trade agreements involving wood products; changes in worldwide demand for Potlatch's products; changes in worldwide 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, energy, 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.

**FULL YEAR 2007 SUMMARY**  
*(Dollars in Thousands)*  
*(Unaudited)*

	<u>1st Quarter 2007</u>	<u>2nd Quarter 2007</u>	<u>3rd Quarter 2007</u>	<u>4th Quarter 2007</u>	<u>4th Quarter 2006</u>	<u>Full Year 2007</u>	<u>Full Year 2006</u>
<b><u>Operating Income (Loss)</u></b>							
Resource	\$ 13,160	\$ 19,937	\$ 38,175	\$ 10,564	\$ 21,988	\$ 81,836	\$ 81,344
Real Estate	(367)	7,374	2,405	7,891	9,149	17,303	11,917
Wood Products	2,190	6,388	2,402	(9,079)	33,610	1,901	39,465
Pulp and Paperboard	(6,029)	17,005	17,559	15,725	9,204	44,260	23,562
Consumer Products	4,775	4,092	5,139	5,188	7,210	19,194	27,269
Eliminations	4,947	4,026	(8,446)	(1,274)	1,107	(747)	(3,752)
	<u>18,676</u>	<u>58,822</u>	<u>57,234</u>	<u>29,015</u>	<u>82,268</u>	<u>163,747</u>	<u>179,805</u>
Corporate	<u>(18,505)</u>	<u>(17,179)</u>	<u>(18,648)</u>	<u>(22,238)</u>	<u>(17,564)</u>	<u>(76,570)</u>	<u>(71,464)</u>
Earnings from continuing operations before taxes	171	41,643	38,586	6,777	64,704	87,177	108,341
Provision (benefit) for taxes	<u>(5,267)</u>	<u>6,250</u>	<u>(2,581)</u>	<u>(4,379)</u>	<u>17,292</u>	<u>(5,977)</u>	<u>(47,705)</u>
Earnings from continuing operations	<u>5,438</u>	<u>35,393</u>	<u>41,167</u>	<u>11,156</u>	<u>47,412</u>	<u>93,154</u>	<u>156,046</u>
plus: Interest expense, net of interest income	7,250	6,744	6,334	8,100	6,785	28,428	27,191
Provision (benefit) for taxes	(5,267)	6,250	(2,581)	(4,379)	17,292	(5,977)	(47,705)
Depreciation, depletion & amortization (DD&A)	<u>19,352</u>	<u>19,320</u>	<u>20,864</u>	<u>20,548</u>	<u>20,313</u>	<u>80,084</u>	<u>79,786</u>
Earnings before interest expense, taxes, depreciation, depletion and amortization (EBITDDA) *	<u>\$ 26,773</u>	<u>\$ 67,707</u>	<u>\$ 65,784</u>	<u>\$ 35,425</u>	<u>\$ 91,802</u>	<u>\$ 195,689</u>	<u>\$ 215,318</u>
Funds from continuing operations (FFO) *	<u>\$ 24,790</u>	<u>\$ 54,713</u>	<u>\$ 62,031</u>	<u>\$ 31,704</u>	<u>\$ 71,589</u>	<u>\$ 173,238</u>	<u>\$ 179,298</u>
Discontinued operations:							
Loss on disposal of discontinued operations, net of tax	\$ (33,056)	\$ 73	\$ -	\$ -	\$ -	\$ (32,983)	\$ -
Loss from discontinued operations, net of tax	(2,158)	(1,516)	(154)	89	(2,129)	(3,739)	(16,936)
DD&A	2,914	415	-	-	2,714	3,329	11,235
	<u>(32,300)</u>	<u>(1,028)</u>	<u>(154)</u>	<u>89</u>	<u>585</u>	<u>(33,393)</u>	<u>(5,701)</u>
Net income (loss)	<u>\$ (29,776)</u>	<u>\$ 33,950</u>	<u>\$ 41,013</u>	<u>\$ 11,245</u>	<u>\$ 45,283</u>	<u>\$ 56,432</u>	<u>\$ 139,110</u>
Funds from operations (FFO) *	<u>\$ (7,510)</u>	<u>\$ 53,685</u>	<u>\$ 61,877</u>	<u>\$ 31,793</u>	<u>\$ 72,174</u>	<u>\$ 139,845</u>	<u>\$ 173,597</u>
Consolidated Funds Available for Distribution (FAD) *						<u>\$ 98,710</u>	<u>\$ 119,913</u>

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

\* Non-GAAP measure - See page 12 for definition.

**PRO-FORMA EARNINGS EXCLUDING NON-RECURRING ITEMS**  
*(Dollars in Thousands)*  
*(Unaudited)*

	1st Quarter 2007		2nd Quarter 2007		3rd Quarter 2007		4th Quarter 2007		4th Quarter 2006		Full Year 2007		Full Year 2006	
	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax
GAAP earnings from continuing operations	\$ 171	\$ 5,438	\$ 41,643	\$ 35,393	\$38,586	\$ 41,167	\$ 6,777	\$ 11,156	\$64,704	\$ 47,412	\$ 87,177	\$ 93,154	\$108,341	\$156,046
Loss on disposal of Boardman assets	(35,829)	(33,056)	55	73	-	-	-	-	-	-	(35,774)	(32,983)	-	-
Loss from discontinued operations	(2,218)	(2,158)	(1,451)	(1,516)	(260)	(154)	148	89	(2,360)	(2,129)	(3,781)	(3,739)	(18,308)	(16,936)
GAAP net earnings (Loss)	<u>(37,876)</u>	<u>(29,776)</u>	<u>40,247</u>	<u>33,950</u>	<u>38,326</u>	<u>41,013</u>	<u>6,925</u>	<u>11,245</u>	<u>62,344</u>	<u>45,283</u>	<u>47,622</u>	<u>56,432</u>	<u>90,033</u>	<u>139,110</u>
Adjustments:														
Canadian lumber settlement	-	-	-	-	-	-	-	-	(39,320)	(23,985)	-	-	(39,320)	(23,985)
Union contract settlement in Lewiston	-	-	1,410	860	-	-	-	-	-	-	1,410	860	-	-
Resource severance costs	2,797	2,318	35	35	(141)	(122)	(38)	(38)	-	-	2,653	2,193	-	-
Loss on disposal of Boardman assets	35,829	33,056	(55)	(73)	-	-	-	-	-	-	35,774	32,983	-	-
Deferred tax adjustment - REIT	-	-	-	-	-	-	-	-	-	3,864	-	-	-	(56,534)
Total adjustments	<u>38,626</u>	<u>35,374</u>	<u>1,390</u>	<u>822</u>	<u>(141)</u>	<u>(122)</u>	<u>(38)</u>	<u>(38)</u>	<u>(39,320)</u>	<u>(20,121)</u>	<u>39,837</u>	<u>36,036</u>	<u>(39,320)</u>	<u>(80,519)</u>
Pro-Forma Earnings *	<u>\$ 750</u>	<u>\$ 5,598</u>	<u>\$ 41,637</u>	<u>\$ 34,772</u>	<u>\$38,185</u>	<u>\$ 40,891</u>	<u>\$ 6,887</u>	<u>\$ 11,207</u>	<u>\$23,024</u>	<u>\$ 25,162</u>	<u>\$ 87,459</u>	<u>\$ 92,468</u>	<u>\$ 50,713</u>	<u>\$ 58,591</u>

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

\* Non-GAAP measure - See page 12 for definition.

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

	4th Quarter 2007 vs. 3rd Quarter 2007	4th Quarter 2007 vs. 4th Quarter 2006	Full Year 2007 vs. 2006
<b>Resource</b>	<b>(\$27,611)</b>	<b>(\$11,424)</b>	<b>\$492</b>
Volume	(30,927)	(10,125)	9,961
Price	(4,435)	1,828	(432)
Restructuring charge	(103)	38	(2,653)
Costs and Other	7,854	(3,165)	(6,384)
<b>Real Estate</b>	<b>\$5,486</b>	<b>(\$1,258)</b>	<b>\$5,386</b>
<b>Wood products</b>	<b>(\$11,481)</b>	<b>(\$42,689)</b>	<b>(\$37,564)</b>
Volume	(16,100)	(3,703)	(14,870)
Price	(5,598)	(579)	(20,313)
Costs and other	10,217	913	36,939
Canadian lumber settlement	-	(39,320)	(39,320)
<b>Pulp and Paperboard</b>	<b>(\$1,834)</b>	<b>\$6,521</b>	<b>\$20,698</b>
Volume	(1,098)	7,359	15,486
Price	2,898	8,374	36,985
Major maintenance costs	(2,100)	567	5,614
Costs and other	(1,534)	(9,779)	(37,387)
<b>Consumer products</b>	<b>\$49</b>	<b>(\$2,022)</b>	<b>(\$8,075)</b>
Volume	1,803	1,090	(14,815)
Price	1,860	8,027	22,624
Costs and other	(3,614)	(11,139)	(15,884)
<b>Eliminations</b>	<b>\$7,172</b>	<b>(\$2,381)</b>	<b>\$3,005</b>
<b>Corporate</b>	<b>(\$3,590)</b>	<b>(\$4,674)</b>	<b>(\$5,106)</b>
<b>Decrease in earnings from continuing operations before taxes</b>	<b>(\$31,809)</b>	<b>(\$57,927)</b>	<b>(\$21,164)</b>

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

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

	<u>1st Quarter 2007</u>	<u>2nd Quarter 2007</u>	<u>3rd Quarter 2007</u>	<u>4th Quarter 2007</u>	<u>4th Quarter 2006</u>	<u>Full Year 2007</u>	<u>Full Year 2006</u>
<b>Fee Volume (tons)</b>							
Resource							
Northern region	513,890	466,858	852,665	<b>560,090</b>	653,882	<b>2,393,503</b>	2,240,349
Southern region	343,285	446,648	468,351	<b>280,100</b>	316,952	<b>1,538,384</b>	1,048,402
<b>Sales Volume (tons)</b>							
Resource							
Northern region	617,830	668,488	965,011	<b>692,538</b>	697,046	<b>2,943,867</b>	2,623,504
Southern region	396,356	462,660	481,391	<b>280,098</b>	567,808	<b>1,620,505</b>	2,068,173
<b>Shipment Information</b>							
Wood products							
Lumber (m. bd. ft.)	234,921	240,931	234,069	<b>196,136</b>	206,934	<b>906,057</b>	950,520
Plywood (m. sq. ft., 3/8" basis)	43,278	44,437	43,495	<b>40,468</b>	39,224	<b>171,678</b>	160,661
Particleboard (m. sq. ft., 3/4" basis)	15,337	17,712	15,722	<b>14,677</b>	15,242	<b>63,448</b>	66,706
Pulp and paperboard							
Paperboard (tons)	172,401	185,021	193,636	<b>183,232</b>	186,934	<b>734,290</b>	732,050
Pulp (tons) *	7,008	18,468	18,638	<b>29,855</b>	12,682	<b>73,969</b>	47,744
Consumer products							
Tissue (tons)	47,149	47,461	48,174	<b>48,947</b>	48,453	<b>191,731</b>	198,462

\* Excludes pulp used internally.

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

	<u>1st Quarter 2007</u>	<u>2nd Quarter 2007</u>	<u>3rd Quarter 2007</u>	<u>4th Quarter 2007</u>	<u>4th Quarter 2006</u>	<u>Full Year 2007</u>	<u>Full Year 2006</u>
<b>Sales Prices/Unit</b>							
Resource (\$ per ton)							
Northern timber	\$ 69	\$ 78	\$ 81	\$ 75	\$ 76	\$ 76	\$ 80
Southern timber	41	42	44	43	34	42	35
Wood products (\$ per unit)							
Lumber (m. bd. ft.)	378	383	390	360	362	378	397
Plywood (m. sq. ft., 3/8" basis)	315	317	328	330	323	322	343
Particleboard (m. sq. ft., 3/4" basis)	321	320	300	314	346	314	306
Pulp and paperboard (\$ per ton)							
Paperboard	759	771	774	789	749	773	732
Pulp*	605	621	620	625	590	621	528
Consumer products (\$ per ton)							
Tissue	2,338	2,231	2,333	2,371	2,207	2,319	2,201

\* Excludes transfer prices of pulp used internally.

**RECAP OF 2007 TAX PROVISION (BENEFIT) FROM CONTINUING OPERATIONS BY QUARTER**  
*(Dollars in Thousands)*  
*(Unaudited)*

	<u>1st Quarter 2007</u>	<u>2nd Quarter 2007</u>	<u>3rd Quarter 2007</u>	<u>4th Quarter 2007</u>	<u>Full Year 2007</u>	<u>2006</u>
Current year REIT, net	\$ 19	\$ 31	\$ 14	\$ (64)	\$ -	\$ (67)
Current year TRS	(5,511)	5,994	863	(4,602)	(3,256)	8,365
Deferred tax adjustment related to REIT conversion	-	-	-	-	-	(56,534)
Other adjustments	<u>225</u>	<u>225</u>	<u>(3,458)</u>	<u>287</u>	<u>(2,721)</u>	<u>531</u>
Tax provision (benefit) from continuing operations	<u>\$ (5,267)</u>	<u>\$ 6,250</u>	<u>\$ (2,581)</u>	<u>\$ (4,379)</u>	<u>\$ (5,977)</u>	<u>\$ (47,705)</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>1st Quarter 2007</u>	<u>2nd Quarter 2007</u>	<u>3rd Quarter 2007</u>	<u>4th Quarter 2007</u>	<u>4th Quarter 2006</u>	<u>Full Year 2007</u>	<u>Full Year 2006</u>
<b>Earnings before interest, taxes, depreciation, depletion and amortization (EBITDDA):</b>							
GAAP net earnings (loss)	\$ (29,776)	\$ 33,950	\$ 41,013	\$ 11,245	\$ 45,283	\$ 56,432	\$ 139,110
Interest expense, net of interest income	7,250	6,744	6,334	8,100	6,785	28,428	27,191
Provision (benefit) for income taxes	(5,267)	6,250	(2,581)	(4,379)	13,428	(5,977)	8,829
Depreciation, depletion and amortization	19,352	19,320	20,864	20,548	20,313	80,084	79,786
Loss from discontinued operations, net of tax	35,214	1,443	154	(89)	2,129	36,722	16,936
Benefit from taxes related to REIT conversion	-	-	-	-	3,864	-	(56,534)
<b>EBITDDA *</b>	<u><u>\$26,773</u></u>	<u><u>\$ 67,707</u></u>	<u><u>\$ 65,784</u></u>	<u><u>\$35,425</u></u>	<u><u>\$91,802</u></u>	<u><u>\$ 195,689</u></u>	<u><u>\$ 215,318</u></u>

\* Non-GAAP measure - See page 12 for definition.

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

	<u>1st Quarter 2007</u>	<u>2nd Quarter 2007</u>	<u>3rd Quarter 2007</u>	<u>4th Quarter 2007</u>	<u>4th Quarter 2006</u>	<u>Full Year 2007</u>	<u>2006</u>
<b>Funds from Operations (FFO):</b>							
GAAP Net earnings (loss)	\$ (29,776)	\$ 33,950	\$ 41,013	\$ 11,245	\$ 45,283	\$ 56,432	\$ 139,110
Deferred tax adjustment related to REIT conversion	-	-	-	-	3,864	-	(56,534)
Depreciation, depletion and amortization from continued operations	19,352	19,320	20,864	20,548	20,313	80,084	79,786
Loss from discontinued operations, net of tax	35,214	1,443	154	(89)	2,129	36,722	16,936
Funds from continuing operations	<u>\$ 24,790</u>	<u>\$ 54,713</u>	<u>\$ 62,031</u>	<u>\$ 31,704</u>	<u>\$ 71,589</u>	<u>\$ 173,238</u>	<u>\$ 179,298</u>
Loss from discontinued operation, net of tax	(35,214)	(1,443)	(154)	89	(2,129)	(36,722)	(16,936)
Depreciation, depletion and amortization from discontinued operations	2,914	415	-	-	2,714	\$ 3,329	11,235
Funds from Operations *	<u>\$ (7,510)</u>	<u>\$ 53,685</u>	<u>\$ 61,877</u>	<u>\$ 31,793</u>	<u>\$ 72,174</u>	<u>\$ 139,845</u>	<u>\$ 173,597</u>

\* Non-GAAP measure - See page 12 for definition.

**RECONCILIATION OF NON-GAAP MEASURES**  
(Dollars in thousands)

	Full Year	
	<u>2007</u>	<u>2006</u>
<b>Funds Available for Distribution (FAD):</b>		
Net cash provided by operating activities from continuing operations	\$ 145,706	\$ 189,228
Benefit from taxes related to REIT conversion	-	(56,534)
Loss from discontinued operations	(3,739)	(16,936)
Loss on disposal of discontinued operations	(32,983)	-
Depreciation, depletion and amortization from discontinued operations	3,329	11,235
Proceeds from sales deposited with a like-kind exchange intermediary	24,339	6,673
Non-cash cost of real estate sold	(3,552)	(277)
Deferred taxes	3,003	69,200
Equity-based compensation expense	(5,804)	(4,096)
Employee benefit plans	11,111	1,418
Other	(866)	(3,290)
Working capital changes	880	(39,450)
Funding of qualified pension plans	-	18,092
Excess tax benefit-share-based payment arrangements	2,734	890
Income tax benefit-exercise of stock options and performance shares	(4,313)	(2,556)
Capital spending from continuing operations, excl. timberland acquisitions	(40,306)	(51,432)
Capital spending from discontinued operations	(829)	(2,252)
<b>Funds Available for Distribution *</b>	<b><u>\$ 98,710</u></b>	<b><u>\$ 119,913</u></b>

**2007 FAD Payout Ratio:**

Quarterly Distributions to Shareholders for 2007 (A)	77,460
Funds Available for Distribution (B)	<u>98,710</u>
(A)/(B)	<b><u>78%</u></b>

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\* Non-GAAP measure - See page 12 for definition.

## Definitions of Non-GAAP Measures

**Pro-Forma Earnings** is a non-GAAP measure. Pro-forma earnings, as we define them, are earnings on both a before and after tax basis as reported under GAAP, adjusted for special items that are considered one-time, non-recurring items of income or expense. The pro-forma earnings presentation is intended to show what we believe earnings would have been without the non-recurring items. This should not be considered an alternative to before tax earnings or net earnings computed under GAAP as an indicator of our operating performance.

**EBITDDA** is a non-GAAP measure that represents the cash generating capacity of the company. The most directly comparable GAAP measure is net earnings. EBITDDA, as we define it, is net earnings adjusted for net interest expense, provision (benefit) for income taxes, depreciation, depletion and amortization, and the benefit from taxes related to the REIT conversion. 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, less the benefit from taxes resulting from the reversal of timber-related deferred tax liabilities that are no longer necessary as a result of our REIT conversion, plus depreciation, depletion and amortization 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.

**Funds Available for Distribution (FAD)** is a non-GAAP measure. The most directly comparable GAAP measure is net cash provided by operating activities. FAD, as we define it, is presented as a supplemental financial measure. We do not use FAD as, nor should it be considered to be, an alternative to net cash provided by operating activities computed under GAAP as an indicator of our operating performance, or as an indicator of our ability to fund our cash needs. FAD, as we define it, may not be comparable with measures of similar titles reported by other companies. We define FAD as cash provided by operating activities from continuing operations adjusted for: net of the benefit from taxes resulting from the reversal of timber-related deferred tax liabilities that are no longer necessary as a result of our REIT conversion; loss from discontinued operations, proceeds from sales deposited with a like-kind exchange intermediary; non-cash cost of real estate sold; change in deferred taxes; equity-based compensation expense; employee benefit plan adjustments; working capital changes; funding of qualified pension plans; excess tax benefit for share-based payment arrangements; income tax benefit related to stock issued in conjunction with stock compensation plans; and capital spending excluding the Wisconsin and central Idaho timberland acquisitions.

