



Potlatch Corporation

Fourth Quarter 2006 Conference Call
Supplemental Information

Mike Covey
Jerry Zuehlke

Chairman, President and Chief Executive Officer
Vice President and Chief Financial Officer

Fourth Quarter 2006 Conference Call Supplemental Information

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 land values, land sales, like-kind exchanges and tax consequences, direction of markets and wood chip availability. 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 our 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.

Fourth Quarter 2006 Conference Call Supplemental Information

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

	4th Quarter 2006		3rd Quarter 2006		4th Quarter 2005		Full Year 2006		Full Year 2005	
	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax	Pretax	Net of tax
Reported Earnings (GAAP)	\$ 60,416	\$ 44,107	\$ 10,467	\$ 24,232	\$ 10,469	\$ 9,918	\$ 90,033	\$ 139,110	\$ 47,640	\$ 32,964
Adjustments:										
Canadian Lumber Settlement	(39,320)	(23,985)	-	-	-	-	(39,320)	(23,985)	-	-
Deferred Tax Adjustment - REIT	-	3,864	-	(9,216)	-	-	-	(56,534)	-	-
REIT Conversion Costs	-	-	-	-	4,191	2,557	-	-	5,930	3,617
Total Adjustments	<u>(39,320)</u>	<u>(20,121)</u>	<u>-</u>	<u>(9,216)</u>	<u>4,191</u>	<u>2,557</u>	<u>(39,320)</u>	<u>(80,519)</u>	<u>5,930</u>	<u>3,617</u>
Pro-Forma Earnings *	<u>\$ 21,096</u>	<u>\$ 23,986</u>	<u>\$ 10,467</u>	<u>\$ 15,016</u>	<u>\$ 14,660</u>	<u>\$ 12,475</u>	<u>\$ 50,713</u>	<u>\$ 58,591</u>	<u>\$ 53,570</u>	<u>\$ 36,581</u>

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

Fourth Quarter 2006 Conference Call Supplemental Information

FOURTH QUARTER SUMMARY
(Dollars in Thousands)
(Unaudited)

	<u>4th Quarter 2006</u>	<u>3rd Quarter 2006</u>	<u>4th Quarter 2005</u>	<u>Full Year</u>	
				<u>2006</u>	<u>2005</u>
<u>Operating Income</u>					
Resource	\$ 19,628	\$ 19,262	\$ 13,433	\$ 63,036	\$ 56,387
Land Sales and Development	9,149	788	14,945	11,917	22,441
Wood Products	33,884	(5,161)	382	39,465	28,594
Pulp and Paperboard	7,002	14,302	(4,316)	23,562	(1,621)
Consumer Products	7,210	6,186	7,398	27,269	10,628
Eliminations	1,107	(6,578)	(1,935)	(3,752)	(1,310)
	<u>77,980</u>	<u>28,799</u>	<u>29,907</u>	<u>161,497</u>	<u>115,119</u>
Corporate	<u>(17,564)</u>	<u>(18,332)</u>	<u>(19,438)</u>	<u>(71,464)</u>	<u>(67,479)</u>
Consolidated Earnings before Taxes	<u>60,416</u>	<u>10,467</u>	<u>10,469</u>	<u>90,033</u>	<u>47,640</u>
plus: Interest Expense	7,209	7,229	7,323	29,120	29,045
Depreciation, Depletion & Amortization	<u>23,026</u>	<u>22,989</u>	<u>22,807</u>	<u>91,021</u>	<u>83,210</u>
EBITDDA *	<u>\$ 90,651</u>	<u>\$ 40,685</u>	<u>\$ 40,599</u>	<u>\$ 210,174</u>	<u>\$ 159,895</u>
Consolidated FFO *	<u>\$ 70,997</u>	<u>\$ 38,005</u>	<u>\$ 32,725</u>	<u>\$ 173,597</u>	<u>\$ 116,174</u>
Consolidated FAD *				<u>\$ 119,913</u>	<u>\$ 10,600</u>

* Non-GAAP measure (see pages 9 - 11 for reconciliations and page 12 for definitions).

Fourth Quarter 2006 Conference Call Supplemental Information

VARIANCE ANALYSES - INCREASE (DECREASE) IN EARNINGS BEFORE TAXES
(Dollars in Thousands - Unaudited)

	4th Quarter 2006 vs. 3rd Quarter 2006	4th Quarter 2006 vs. 4th Quarter 2005	Full Year 2006 vs. 2005
Resource	\$ 366	\$ 6,195	\$ 6,649
Volume	(1,565)	(241)	(6,934)
Price	(7,712)	3,843	19,353
Costs and other	9,643	2,593	(5,770)
Land Sales and Development	8,361	(5,796)	(10,524)
Wood products	39,045	33,502	10,871
Volume	(7,273)	(10,450)	19,431
Price	(8,126)	(8,395)	(21,804)
Costs and other	15,124	13,027	(26,076)
Canadian lumber settlement	39,320	39,320	39,320
Pulp and paperboard	(7,300)	11,318	25,183
Volume	6,239	766	11,112
Price	1,965	10,555	28,343
Costs and other	(15,504)	(3)	(14,272)
Consumer products	1,024	(188)	16,641
Volume	(5,760)	19,263	42,621
Price	(532)	485	25,800
Costs and other	7,316	(19,936)	(51,780)
Eliminations	7,685	3,042	(2,442)
Corporate	768	1,874	(3,985)
Increase in earnings before taxes	<u>\$49,949</u>	<u>\$49,947</u>	<u>\$42,393</u>

Fourth Quarter 2006 Conference Call Supplemental Information

VOLUMES AND SALES PRICES/UNIT
(Unaudited)

	<u>4th Quarter 2006</u>	<u>3rd Quarter 2006</u>	<u>4th Quarter 2005</u>	<u>Full Year 2006</u>	<u>2005</u>
Fee Harvest					
Resource					
Northern region (tons)	731,570	720,658	559,754	2,566,198	2,161,263
Southern region (tons)	260,259	210,215	395,124	900,273	1,298,712
Shipment Information					
Wood products					
Lumber (m. bd. ft.)	206,958	226,486	238,300	950,520	916,787
Plywood (m. sq. ft., 3/8" basis)	39,224	36,128	32,640	160,661	146,721
Particleboard (m. sq. ft., 3/4" basis)	15,242	17,035	16,871	66,706	65,694
Pulp and paperboard					
Paperboard (tons)	186,934	176,837	181,728	732,050	715,421
Pulp (tons) *	12,682	14,929	19,568	47,744	48,987
Consumer products					
Tissue (tons)	48,453	51,050	39,685	198,462	177,882

* Excludes pulp used internally.

Fourth Quarter 2006 Conference Call Supplemental Information

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

	<u>4th Quarter 2006</u>	<u>3rd Quarter 2006</u>	<u>4th Quarter 2005</u>	<u>Full Year 2006</u>	<u>2005</u>
Sales Prices/Unit					
Resource					
Northern timber (\$ per ton)	\$ 73	\$ 83	\$ 75	\$ 76	\$ 72
Southern timber (\$ per ton)	34	32	36	35	39
Wood products (\$ per unit)					
Lumber (m. bd. ft.)	362	396	399	397	420
Plywood (m. sq. ft., 3/8" basis)	323	350	376	343	358
Particleboard (m. sq. ft., 3/4" basis)	346	348	258	306	269
Pulp and paperboard (\$ per ton)					
Paperboard	749	741	704	732	700
Pulp*	590	553	421	528	425
Consumer products (\$ per ton)					
Tissue	\$2,207	\$2,218	\$2,197	\$2,201	\$2,071

* Excludes transfer prices of pulp used internally.

Fourth Quarter 2006 Conference Call Supplemental Information

RECAP OF 2006 TAX PROVISION BREAKDOWN BY QUARTER
(Dollars in Thousands)
(Unaudited)

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Full Year</u>
Current year REIT, net	\$ 38	\$ 449	\$ -	\$ (109)	\$ 378
Current year TRS	(2,200)	374	(3,196)	12,015	6,993
Deferred tax adjustment related to REIT conversion	(51,182)	-	(9,216)	3,864	(56,534)
Other adjustments	450	450	(1,353)	539	86
	<u>450</u>	<u>450</u>	<u>(1,353)</u>	<u>539</u>	<u>86</u>
Total 2006 Tax Provision by Quarter	<u>\$ (52,894)</u>	<u>\$ 1,273</u>	<u>\$ (13,765)</u>	<u>\$ 16,309</u>	<u>\$ (49,077)</u>

Fourth Quarter 2006 Conference Call Supplemental Information

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

	<u>4th Quarter 2006</u>	<u>3rd Quarter 2006</u>	<u>4th Quarter 2005</u>	<u>Full Year</u>	
				<u>2006</u>	<u>2005</u>
Earnings before interest, taxes, depreciation, depletion and amortization (EBITDDA):					
GAAP Net earnings	\$ 44,107	\$ 24,232	\$ 9,918	\$ 139,110	\$ 32,964
Interest expense	7,209	7,229	7,323	29,120	29,045
Provision (benefit) for income taxes	12,445	(4,549)	551	7,457	14,676
Depreciation, depletion and amortization	23,026	22,989	22,807	91,021	83,210
Deferred tax adjustment related to REIT conversion	<u>3,864</u>	<u>(9,216)</u>	<u>-</u>	<u>(56,534)</u>	<u>-</u>
EBITDDA *	<u>\$ 90,651</u>	<u>\$ 40,685</u>	<u>\$ 40,599</u>	<u>\$ 210,174</u>	<u>\$ 159,895</u>

* Non-GAAP measure - see page 12 for definition.



Fourth Quarter 2006 Conference Call Supplemental Information

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

	<u>4th Quarter 2006</u>	<u>3rd Quarter 2006</u>	<u>4th Quarter 2005</u>	<u>Full Year 2006</u>	<u>2005</u>
Funds from Operations (FFO):					
GAAP Net earnings	\$ 44,107	\$ 24,232	\$ 9,918	\$ 139,110	\$ 32,964
Deferred tax adjustment related to REIT conversion	3,864	(9,216)	-	(56,534)	-
Depreciation, depletion and amortization	<u>23,026</u>	<u>22,989</u>	<u>22,807</u>	<u>91,021</u>	<u>83,210</u>
Funds from Operations *	<u>\$ 70,997</u>	<u>\$ 38,005</u>	<u>\$ 32,725</u>	<u>\$ 173,597</u>	<u>\$ 116,174</u>

* Non-GAAP measure - see page 12 for definition.



Fourth Quarter 2006 Conference Call Supplemental Information

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

	Full Year	
	<u>2006</u>	<u>2005</u>
Funds Available for Distribution (FAD):		
Net cash provided by operating activities (GAAP)	\$ 188,658	\$ 66,407
Benefit from taxes related to REIT conversion	(56,534)	-
Deferred taxes	70,572	2,018
Cost of permit timber harvested	(3,343)	(6,176)
Equity-based compensation expense	(4,096)	(2,257)
Employee benefit plans	1,191	4,458
Working capital changes	(39,330)	54,215
Funding of qualified pension plans	18,092	-
Excess tax benefit-share-based payment arrangements	890	-
Income tax benefit related to stock issued in conjunction with stock compensation plans	(2,556)	(2,491)
Debt retirement costs	53	-
Capital spending	(53,684)	(105,574)
Funds Available for Distribution *	<u>\$ 119,913</u>	<u>\$ 10,600</u>

* Non-GAAP measure - see page 12 for definition.

Fourth Quarter 2006 Conference Call Supplemental Information

Definitions of Non-GAAP Measures

Pro-Forma Earnings is a non-GAAP measure. Pro-forma earnings, as we define it, is 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 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.

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 adjusted for: changes in deferred taxes, 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; cost of permit timber harvested; 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; debt retirement costs; and capital spending.