

# **Temple-Inland**

## **Reconciliation of Non-GAAP Financial Measures Earnings Call February 5, 2007**

In our earnings call on February 5, 2007, we used certain non-GAAP financial measures. As defined in Regulation G, "Conditions for Use of Non-GAAP Financial Measures," a non-GAAP financial measure is a numerical measure of a company's historical or future performance, financial position, or cash flow that excludes (includes) amounts, or is subject to adjustments that have the effect of excluding (including) amounts, that are included (excluded) in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles (GAAP).

The non-GAAP financial measures are used in the earnings call in addition to, and in conjunction with, results presented in accordance with GAAP. These non-GAAP financial measures should not be relied upon to the exclusion of GAAP financial measures. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, may provide a more complete understanding of factors and trends affecting our business. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names.

### **Return on Investment (ROI)**

Return on investment (ROI) is an important internal measure for us because it is a key component of our evaluation of overall performance and the performance of our business segments. Studies have shown that there is a direct correlation between shareholder value and ROI and that shareholder value is created when ROI exceeds the cost of capital. ROI allows us to evaluate our performance on a consistent basis as the amount we earn relative to the amount invested in our business segments. A significant portion of senior management's compensation is based on achieving ROI targets.

In evaluating overall performance, we define ROI as operating income, adjusted for significant unusual items, divided by parent company total assets, less certain assets and certain current liabilities. In evaluating segment performance, we define ROI as segment operating income divided by segment assets less segment current liabilities. We do not believe there is a comparable GAAP financial measure to our definition of ROI. The reconciliation of our ROI calculation to amounts reported under GAAP is included in a later section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Net income excluding special items**

Net income excluding special items and net income per diluted share excluding special items are important measures for us and investors because they allow useful and consistent comparisons of on-going operations by excluding gains and losses that management believes are not indicative of our ongoing operating results.

We define special items to include discontinued operations, effects of accounting changes, and other items such as gains or losses on sales of non-strategic assets; asset impairments; and unusual income, expenses, and tax benefits or charges. The most comparable GAAP measures are net income and net income per diluted share.

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## Lack of Comparability

Despite their importance to us, ROI, net income excluding special items, and net income per diluted share excluding special items are non-GAAP financial measures that have no standardized definitions and, as a result, may not be comparable with other companies' measures using the same or similar terms. This lack of comparability may limit the usefulness of these measures to us and investors. There may be other limits in the usefulness of these measures to investors. As a result, we encourage you to read our financial information in its entirety and not to rely on any single financial measure.

The reconciliations of these non-GAAP financial measures to their most comparable GAAP financial measure is set forth below:

### Calculation of Non-GAAP Financial Measure

	Fourth Quarter		Third	For the Year	
	2006	2005	Quarter 2006	2006	2005
	(In millions, except per share)				
Net income determined in accordance with GAAP	\$104	\$24	\$96	\$468	\$176
Special items, after-tax					
Closure and sale of converting and production facilities and sale of non-strategic assets	5	2	3	8	30
Hurricane related costs, and in 2006, related insurance proceeds	(1)	-	-	(1)	10
Litigation and other	2	5	3	4	14
Settlement of tax litigation	-	-	-	(85)	-
Softwood Lumber Agreement	(27)	-	-	(27)	-
Financial Services repositioning activities	(1)	3	-	7	3
One-time tax benefit <sup>(a)</sup>	(4)	-	-	(6)	(16)
Total special items, after-tax	(26)	10	6	(100)	41
Net income excluding special items as defined	\$78	\$34	\$102	\$368	\$217
Average diluted shares outstanding	107.8	113.0	110.3	110.8	114.5
Net income per diluted share determined in accordance with GAAP	\$0.97	\$0.21	\$0.87	\$4.22	\$1.54
Special items, after-tax, per diluted share					
Closure and sales of converting and production facilities and sale of non-strategic assets	0.05	0.02	0.03	0.07	0.26
Hurricane related costs, and in 2006, related insurance proceeds	(0.01)	-	-	(0.01)	0.09
Litigation and other	0.02	0.04	0.03	0.04	0.12
Settlement of tax litigation	-	-	-	(0.77)	-
Softwood Lumber Agreement	(0.25)	-	-	(0.24)	-
Financial Services repositioning activities	(0.01)	0.03	-	0.06	0.03
One-time tax benefit <sup>(a)</sup>	(0.04)	-	-	(0.05)	(0.14)
Total special items, per diluted share	(0.24)	0.09	0.06	(0.90)	0.36
Net income per diluted share excluding special items as defined	\$0.73	\$0.30	\$0.93	\$3.32	\$1.90

<sup>(a)</sup> Relates to new Texas state tax legislation in 2006 and sale of Pembroke facility in 2005.

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## Calculation of Non-GAAP Financial Measures

	<u>Parent Company</u>	<u>Corrugated Packaging</u>	<u>Forest Products</u>	<u>Real Estate</u>	<u>Financial Services</u>
	(Dollars in millions)				
<b>Year 2006</b>					
Return:					
Operating income or segment operating income determined in accordance with GAAP	\$ 715 <sup>(a)</sup>	\$ 255	\$ 312	\$ 62	\$ 222
Adjustments for significant unusual items	<u>—</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
	<u>\$ 715</u>	<u>\$ 255</u>	<u>\$ 312</u>	<u>\$ 62</u>	<u>\$ 222</u>
Investment:					
Beginning of year total assets, segment assets or investment in financial services determined in accordance with GAAP	\$ 5,001	\$ 2,318	\$ 866	\$ 422	\$ 1,017
Adjustments:					
Current liabilities (excluding current portion of long-term debt)	(492)	(269)	(76)	(11)	N/A
Assets held for sale	(34)	N/A	N/A	N/A	N/A
Municipal bonds related to capital leases included in other assets	(188)	N/A	N/A	N/A	N/A
Acquisition of Standard Gypsum LP in January 2006	<u>196</u>	<u>N/A</u>	<u>196</u>	<u>N/A</u>	<u>N/A</u>
	<u>\$ 4,483</u>	<u>\$ 2,049</u>	<u>\$ 986</u>	<u>\$ 411</u>	<u>\$ 1,017</u>
ROI	15.9%	12.4%	31.6%	15.1%	21.8%
<b>Year 2005</b>					
Return:					
Operating income or segment operating income determined in accordance with GAAP	\$ 377 <sup>(a)</sup>	\$ 120	\$ 219	\$ 44	\$ 201
Adjustments for significant unusual items	<u>—</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
	<u>\$ 377</u>	<u>\$ 120</u>	<u>\$ 219</u>	<u>\$ 44</u>	<u>\$ 201</u>
Investment:					
Beginning of year total assets, segment assets or investment in financial services determined in accordance with GAAP	\$ 5,006	\$ 2,459	\$ 919	\$ 381	\$ 927
Adjustments:					
Current liabilities (excluding current portion of long-term debt)	(519)	(323)	(71)	(9)	N/A
Assets held for sale	(34)	N/A	N/A	N/A	N/A
Municipal bonds related to capital leases included in other assets	(188)	N/A	N/A	N/A	N/A
	<u>\$ 4,265</u>	<u>\$ 2,136</u>	<u>\$ 848</u>	<u>\$ 372</u>	<u>\$ 927</u>
ROI	8.8%	5.6%	25.8%	11.8%	21.7%
<b>Year 2004</b>					
Return					
Operating income or segment operating income determined in accordance with GAAP	\$ 354 <sup>(a)</sup>	\$ 96	\$ 196	\$ 36	\$ 195
Adjustments for significant unusual items	<u>—</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
	<u>\$ 354</u>	<u>\$ 96</u>	<u>\$ 196</u>	<u>\$ 36</u>	<u>\$ 195</u>
Investment:					
Beginning of year total assets, segment assets or investment in financial services determined in accordance with GAAP	\$ 5,014	\$ 2,374	\$ 950	\$ 390	\$ 938
Adjustments:					
Current liabilities (excluding current portion of long-term debt)	(516)	(319)	(57)	(13)	N/A
Assets held for sale	(50)	N/A	N/A	N/A	N/A
Municipal bonds related to capital leases included in other assets	(188)	N/A	N/A	N/A	N/A
	<u>\$ 4,260</u>	<u>\$ 2,055</u>	<u>\$ 893</u>	<u>\$ 377</u>	<u>\$ 938</u>
ROI	8.3%	4.7%	21.9%	9.5%	20.8%

(a) Net of expenses not allocated to segments of \$136 million in 2006, \$207 million in 2005, and \$169 million in 2004.

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