Plum Creek

Growing Value

Annual Report 99

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Corporate Directory_Inside Back Cover

PLUM CREEK TIMBER COMPANY

As Plum Creek enters a new century, our growth is advanced by our people's skill in bringing to life strong, consistent strategies that increase the value of every aspect of our business.

THE COMPANY

Plum Creek is the fifth largest private owner of timberlands in the United States, with a forest resource base of 3.2 million acres located in Washington, Montana, Idaho, Maine, Louisiana and Arkansas. Logs from our timberlands are used to supply our manufacturing operations and are sold in domestic and export markets. Our manufacturing operations in Montana, Idaho, Louisiana and Arkansas include six lumber mills, two plywood plants, one medium density fiberboard facility and two lumber remanufacturing facilities. Our land sales segment conducts sales and exchanges of certain lands, which may have "higher and better uses" than management for commercial forestry.

FIVE-YEAR FINANCIAL HIGHLIGHTS

($ in millions, except per Share/Unit)	Year ended December 31, 1999[1,2]	1998[3]	1997	1996[4]	1995
Revenues	$ 460.6	$ 699.4	$ 725.6	$ 633.7	$ 585.1
Depreciation, depletion and amortization	59.7	69.3	70.2	56.9	54.1
Operating income	146.4	141.1	173.3	165.0	159.0
Income before cumulative effect of accounting change	113.4	75.4	111.7	223.6	110.7
Cumulative effect of accounting change	12.2				
Net income	125.6	75.4	111.7	223.6	110.7
Capital expenditures[5]	25.6	64.3	28.3	19.3	30.7
Net cash provided by operations	138.0	164.0	190.0	171.9	165.2
Income before cumulative effect of accounting change per Share/Unit	1.72	0.90	1.72	4.71	2.17
Net income per Share/Unit	1.94	0.90	1.72	4.71	2.17
Cash distributions declared per Share/Unit	2.28	2.28	2.20	2.02	1.96
Pro forma amounts, assuming the change in accounting was applied retroactively:					
Net income	113.4	77.2	112.9	224.7	112.5
Net income allocable to Common Stockholders/Unitholders	96.3	43.5	81.0	197.0	90.0
Net income per Share/Unit	1.72	0.94	1.75	4.73	2.22
OPERATING DATA:					
Northwest timberlands fee timber harvested (M Cunits)[6]	987	1,048	1,091	1,234	1,195
Southern timberlands fee timber harvested (M Cunits)	697	764	799	127	
Northeastern timberlands fee timber harvested (M Cunits)[6]	404	44			
Lumber production (MMBF)	743	635	582	461	433
Plywood production (MMSF) (⅜" basis)[7]	337	323	312	297	294
MDF production (MMSF) (¾" basis)	136	132	127	113	102

[1] Revenues; Depreciation, Depletion and Amortization; Operating Income; Capital Expenditures; Net Cash Provided by Operations; Working Capital; Total Assets and Total Debt are not comparable with the prior years as a result of the July 1, 1999, REIT conversion. See Note 1 of the Notes to Financial Statements.

[2] During 1999 the corporation changed its accounting policy for reforestation costs. See Note 1 of the Notes to Financial Statements.

[3] Results include the impact of an acquisition of 905,000 acres of timberland in Maine from November 12, 1998.

[4] Included in 1996 results of operations was a gain of $105.7 million related to the sale of 107,000 acres of timberlands in northeast Washington and northern Idaho and the impact from that sale from October 12, 1996. Results also include the impact of the acquisition from Riverwood International Corporation of 538,000 acres of timberland and related assets in Louisiana and Arkansas from October 19, 1996.

[5] Does not include $181.1 million related to the Maine acquisition in 1998 or $560.7 million related to the Southern Region acquisition in 1996.

[6] Historical data has been converted from MMBF in the Northwest and M Tons in the Northeast to M Cunits for comparability.

[7] Does not include 111 MMSF in 1998, 200 MMSF in 1997 and 37 MMSF in 1996, related to production at the Joyce, Louisiana, plywood facility which was closed in July 1998.

Dear Fellow Shareholders

RICK HOLLEY
President and
Chief Executive Officer

1999 was a pivotal year for Plum Creek, with the completion of our REIT conversion positioning us well for the next phase of our growth as a leading pure-play timber company. With over 3.2 million acres of timber in four diverse regions, the most advanced forestry and land management practices, and integrated manufacturing operations serving value-added niche markets, we have the right combination of resources and assets to build and deliver value to our investors. The REIT structure enhances that potential by giving us tax efficiency and the flexibility to increase the value of our underlying resource base through accretive acquisitions.

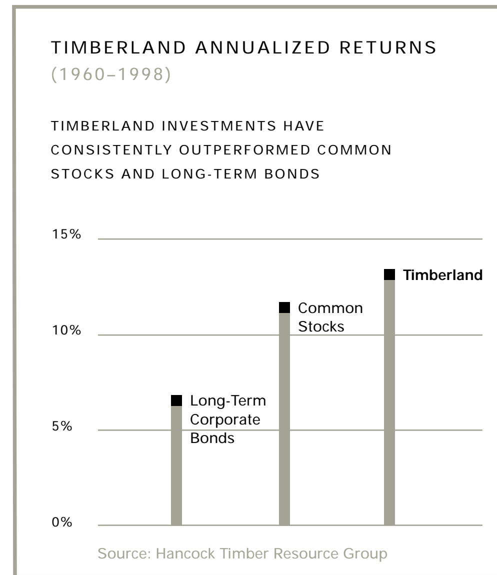
Our strong 1999 results reflect several of Plum Creek's competitive advantages: our ability to balance harvests to take advantage of pricing by market; the rapid and efficient integration of our Maine acquisition; continued insistence on low-cost, effective manufacturing operations; and a focus on sales and exchanges of higher and better use lands. In a mixed pricing environment, these elements contributed to a solid year-over-year increase in earnings.

Our earnings for the year were $125.6 million, or $1.94 per share, on revenues of $460.6 million. The earnings include several special items, and the revenue figure is markedly different from previous years due to reporting rules for REIT. Adjusting for the special items, earnings were $93.0 million, or $1.36 per share, compared to $75.4 million, or $0.90 per Unit in 1998. Adjusting for the reporting differences, 1999 revenues would have been $758.9 million, compared to $699.4 million in 1998.

During the year we experienced favorable pricing in our lumber and plywood businesses, which was helped by the robust U.S. economy, high consumer confidence and strong building activity. Log prices in the Northwest benefited from strong product markets and a declining timber supply, while prices in our Southern region were weaker due to an abundant supply of logs. Despite flat local pricing, the financial results from the first full year of our Northeast Region were accretive to cash flow and earnings, due to our emphasis on log merchandising and cost reductions.

STRATEGIC DIRECTION— GROWTH OPPORTUNITIES

At its core, Plum Creek is a timber company. Timber is a renewable resource whose long-



term value will increase based simply on macroeconomic trends—global population growth, greater wealth, and continued development heighten global wood demand, while environmental concerns and limited plantation development continue to constrain wood supplies.

As a result, timber has experienced annualized returns of 13.6% from 1960 to 1998 (see chart), with less volatility than the S&P 500. Because it is such a fundamentally compelling investment, we will continue to grow our timber base through investment-grade timberland acquisitions that provide immediate and sustainable returns.

While the economics of timber are attractive, we improve upon them with our total resource management capabilities—disciplined harvesting, manufacturing and merchandising, environmental stewardship, and the ability to evaluate and market lands better suited to residential or recreational uses. These capabilities have resulted in:

- three large, successful timberland acquisitions in six years;
- lean, state-of-the-art, value-adding manufacturing;
- the completion of comprehensive and scientifically sound Habitat Conservation Plans (HCPs), with draft HCPs under review;
- the implementation of advanced biotechnology, in our Forest Growth Initiative and other silvicultural programs, that accelerates tree growth; and
- a history of successfully positioning properties for sale or exchange that protects, creates and captures value.

This resource management focus enhances financial returns while assuring the sustainability and predictability of our business.

With our capabilities, scale and new structure, we are also looking at Plum Creek differently than a year ago. We see several separate but interrelated lines of business overlaying our basic timber business, each with growth potential that we will develop. Specifically,

Real Estate and Resource Management Services: Our environmental forestry program, scientific expertise in resource and species management and habitat conservation, and capabilities in real estate—particularly as it relates to the sale or exchange of sensitive lands—are core competencies of Plum Creek. We believe they have significant marketable value to third-party owners of timber and other land holdings, and are in

the process of developing this new business.

Management of Timberland Investments: Our REIT structure facilitates being a co-investor in and manager of timberlands, or simply another investor's timberland "portfolio manager." We fill the need for ready financing and the skill to maximize returns that are balanced with sustainable forestry. The pace of this type of investment arrangement has increased significantly in recent years, and we see it as an additional growth opportunity for the Company.

Value-Added Manufacturing: Our highly productive and efficient manufacturing plants produce for the value-added do-it-yourself and industrial wood product markets, which are less volatile than new home construction markets. More importantly, those markets provide opportunities to differentiate Plum Creek through product quality and customer service, attributes that yield improved margins and solid long-term customer relationships. Our productivity focus has resulted in improved manufacturing returns annually, and we expect to continue generating internal growth by maintaining that discipline.

INTO THE NEW CENTURY

Plum Creek is entering a new and exciting period. The actions we took in 1999, and over the last several years, have transformed the Company. Today we are one of the largest and most efficient owners and managers of timberlands in North America. We have become a national rather than a regional company. We have combined the best attributes of timberland investment with our own exceptional resource management capabilities, and the unique flexibility of a REIT structure. It is a compelling foundation to build upon, one we will continue to leverage to achieve greater growth.

In so many respects 1999 was an excellent and successful year. But we are not satisfied. Plum Creek's stock price did not reflect the Company's performance or its underlying value. In 2000, and beyond, we will take every possible step to achieve the total return you, and we, expect. We'll do that by pursuing opportunities presented to us and, more importantly, those we make for ourselves.

We thank you for your support as we take Plum Creek into the new century.

Sincerely,

From our timberland acquisitions to our latest innovations in silviculture, value-added manufacturing and environmental forestry, it is how we think about, and manage, our resources that grows the value of our Company—and our future.

Since 1995, Plum Creek's timberland holdings have increased 60 percent. And that's only the beginning.

DAVID LAMBERT
Treasurer and Director of Planning

ACQUIRING NEW TIMBERLANDS

Plum Creek aggressively pursues strategic and financially attractive timber acquisitions that enhance the Company's resource base and long-term value. Our disciplined acquisition strategy has helped us to become the fifth largest private timberland owner in the nation, with over 3.2 million acres and more growth in sight. Throughout the United States and select overseas markets, we continually analyze emerging opportunities against our strategic criteria to acquire assets that work in synergy with our growth objectives.

Plum Creek's 1998 acquisition of 905,000 acres of prime Maine timberlands exemplifies the thinking behind our strategic criteria. These flat, contiguous timberlands of hardwood and softwood are among the highest quality in the Northeast—well-managed, easy to access and a positive contribution to the Company's overall cash flow from our first day of ownership. Their diverse range of age classes and tree species allows for a steady, sustainable succession of harvests over time. A variety of productive nearby manufacturing facilities enhances our ability to merchandise the timber to its highest-value market. A long-term supply agreement with Sappi Fine Paper, North America, a major existing customer in the area, ensures a ready market for our fiber. Our move into the Northeast has increased the diversification of our timberland portfolio, broadening our market base, strengthening our national presence, reducing the overall impact on any single region's changes in supply or demand, and giving us a knowledge base for future regional expansion. Although these timberlands were highly productive when we acquired them, we saw the potential to further increase their value through improved log merchandising, commercial thinning, and innovative sales and exchanges of higher and better use (HBU) lands for conservation and recreation.

Plum Creek's acquisition criteria reflect the advantages of being able to extract value from timberlands in a variety of ways. We have the flexibility and capabilities to develop whatever strategic opportunities maximize the return on every acre. Our growth-oriented focus begins with each new addition to our resource base; it continues every step of the way from integrating the holdings into our operations to managing, merchandising and making the most of their value for generations to come.

3.2 million
'99

2.0 million
'95

We increase the performance—and value—of every acquisition we make.

LEVERAGING OPPORTUNITY

JIM LEHNER
General Manager
Northeast Region

INTEGRATING NEW ASSETS

In today's fast-paced business environment, the economics of a new acquisition are driven by what happens early on. Long before we close on a new acquisition, a multidisciplinary team of Plum Creek managers visits the operation to develop an integration plan that covers every aspect of the business. Our planning teams pay close attention to bringing together people and technology to accelerate the integration process. The more swiftly we integrate financial, information and communications systems, the more quickly we can leverage the knowledge and creativity of our new employees. The more we share Plum Creek's culture and values, the more employees are inspired to become active contributors to the Company's growth. The sooner our people and information systems work together to seize entrepreneurial forest management, merchandising, and higher and better use (HBU) land opportunities, the more rapidly productivity and profitability rise.

With every acquisition, as our new employees receive the encouragement and information to think beyond old structures, they identify opportunities to improve on existing operations and create new growth. In the South, foresters developed the Forest Growth Initiative (FGI), a program of fertilization, thinning and weed control with the potential to double growth rates. At our Huttig lumber mill in Arkansas, employee support of new policies and practices has reduced downtime, improved lumber quality and tightened inventory control. By focusing on the basics of the business, Huttig increased its productivity to become one of Plum Creek's top-performing mills in 1999. In Maine, a revolution in log merchandising and on-site bidding ensures that high-value logs capture premium prices by reaching the right customer. In our first year of ownership, the Northeast Region's production and sales returns of high-value hardwood veneers rose significantly from 1998—proof of our sorters' daily attention to get every segment of every log to its highest-value destination. At the Meridian, Idaho, remanufacturing facility we acquired in June 1998, rapid integration and employee innovations drove output from 38 million board feet (MMBF) to 54 MMBF per year in only 18 months.

Plum Creek's ability to integrate far-flung operations quickly and efficiently is a core competency that allows us to make the most of every acquisition—and a competitive advantage we can take with us wherever we grow.

NORTHEAST REGION
VENEER LOG SALES RETURNS
(PRICE PER TON)

$245
'99*

$170
'98

*FIRST YEAR OF PLUM CREEK OWNERSHIP

We advance the frontiers of silviculture and forest management to make the most of every acre.

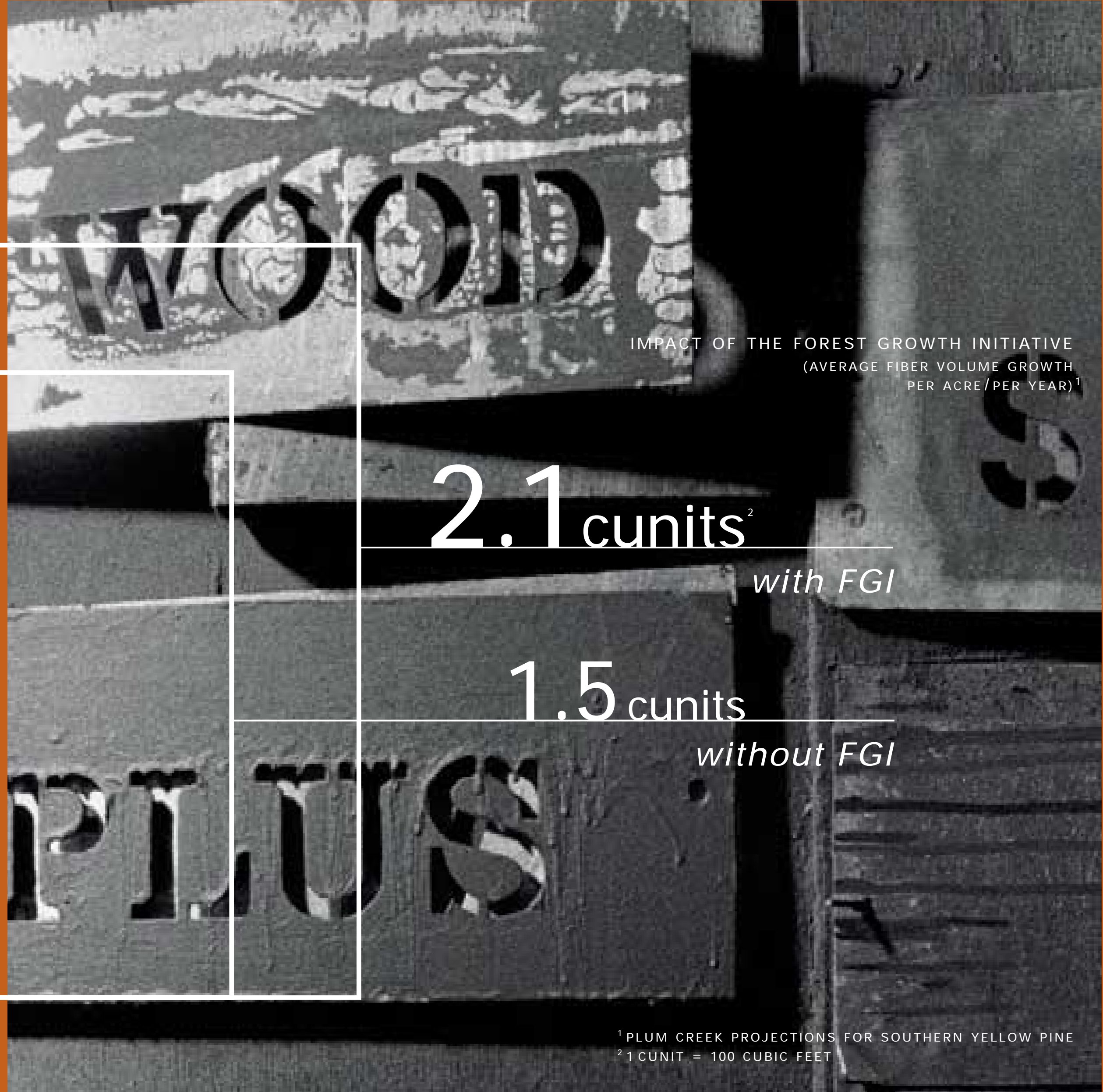
DAVE CROOKER
General Manager,
Cascade Region

PIONEERING NEW PRACTICES

Biology plays a vital role in Plum Creek's management-intensive strategy to build an increasingly larger, faster-growing timber inventory. From seed to harvest, our foresters and scientists apply scientific and silvicultural advances that promote the growth of our trees through every stage of their life cycle. In our seed orchards, trees are stressed to produce genetically improved seedlings with the best possible heritage for healthy growth and return on investment. These seeds get off to a strong start in the controlled conditions of Plum Creek's nurseries in our Rocky Mountain and Southern Regions. Each year, we plant nearly 20 million seedlings in our reforestation activities. Because our foresters consider the environment key to optimum growth, every young tree is planted at the ideal elevation, slope and climatic conditions to thrive.

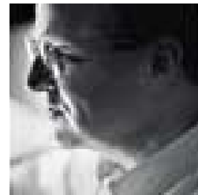
Just as geography, growing conditions and tree species vary regionally, so do our silvicultural and forest management techniques. Each forestry unit translates its ideas and on-the-ground expertise, in addition to the latest research, into initiatives that accelerate growth and maximize yield. In every region but the fast-growing South (where even the first thinning has commercial value), pre-commercial thinning removes vegetation competing for light and nutrients to let the best trees grow to maturity. In Maine, Plum Creek is pioneering a first commercial thinning—and generating higher revenues by targeting customers who value these small but straight logs as sawlogs rather than lower-value pulpwood. In the pine plantations of our Southern Region, the Forest Growth Initiative (FGI) can boost productivity 40 percent per acre per year. Foresters launched the FGI in 1999, fertilizing more than 58,000 acres and controlling competing species on more than 21,000 acres.

Effective forest management begins with a complete understanding of the timberlands one owns, supported by judicious application of technology. Our biological initiatives add value by increasing tree fiber growth and shortening growth cycles. As trees (logs) grow larger, their overall value also increases as they enter new product classes—from pulp log to chip-n-saw log to veneer log or sawlog. As a result, our science and technology capabilities are a key resource and competitive advantage that significantly contributes to the total return we achieve from our land holdings.


WOOD
PLUS
IMPACT OF THE FOREST GROWTH INITIATIVE
(AVERAGE FIBER VOLUME GROWTH
PER ACRE/PER YEAR)[1]
2.1 cunits[2]
with FGI
1.5 cunits
without FGI
[1] PLUM CREEK PROJECTIONS FOR SOUTHERN YELLOW PINE
[2] 1 CUNIT = 100 CUBIC FEET

Value-added manufacturing and merchandising make the most of every board foot.

RESOURCEFULNESS



HENRY RICKLEFS
General Manager,
Northwest Lumber Products

OPTIMIZED MANUFACTURING

At Plum Creek, we profit from viewing our manufacturing operations as a distinct enterprise. By measuring their financial performance independently from our timberlands, we ensure that they add value to the Company as strong, stand-alone profit centers. We go on to increase their value through efficient integration with our resource base and alignment with market dynamics. A continuous flow of real-time information between both sides of the business gives us competitive advantages: lean inventories and agile, just-in-time responsiveness to the market.

In 1999, we made strides in getting each log to the customer who values it most. We produced more 9- and 10-foot length studs and a special home center grade; both command a price premium. We've markedly increased lumber sales at home centers by hiring independent agents with retail hardware expertise to keep Plum Creek displays clean, well-stacked and organized. In Maine, where log species and values vary dramatically, trained Plum Creek employees grade every log to its highest value at our new merchandising yard; many hardwood logs are auctioned on-site through competitive bidding that assures top market value. Across our timberlands, we merchandise segments of the same log in different ways to get the highest overall return. Our leadership as the maker of North America's highest quality medium density fiberboard has led to relationships with customers such as TruStile, a Denver-based maker of premium doors for custom residential and commercial interiors. TruStile exemplifies our focus on customers whose needs for high product performance, consistency and volume are an ideal fit with our manufacturing strengths.

As the Joyce sawmill completes its $31 million recapitalization project in early 2000, its production will nearly double to 210 million board feet per year. Joyce's manufacturing cost structure will be among the lowest for Southern Yellow Pine lumber producers.

Our facilities are well capitalized for the future, and we maintain a keen focus on maximizing their potential. Today, productivity and efficiency are on the rise at all our plants, due to a series of low-cost improvements in preventive maintenance, quality control and inventory control that enhance our operating margins and return on invested capital. These improvements are part of a companywide initiative to create new efficiencies that reduce overall operating costs.

RETURN ON INVESTED CAPITAL*

(AVERAGE 1997–1999)

24 %

plywood

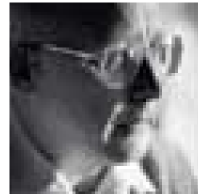
14 %

lumber

*RETURN ON INVESTED CAPITAL, A MEASURE OF SHAREHOLDER VALUE ADDED, CALCULATED BY DIVIDING OPERATING INCOME BY CAPITAL INVESTED (P,P+E AND WORKING CAPITAL) IN THOSE BUSINESSES

We "think outside the box" to maximize the value of our higher and better use lands.

HIGHEST USE, HIGHEST VALUE



MIKE YEAGER
Director, Land Management

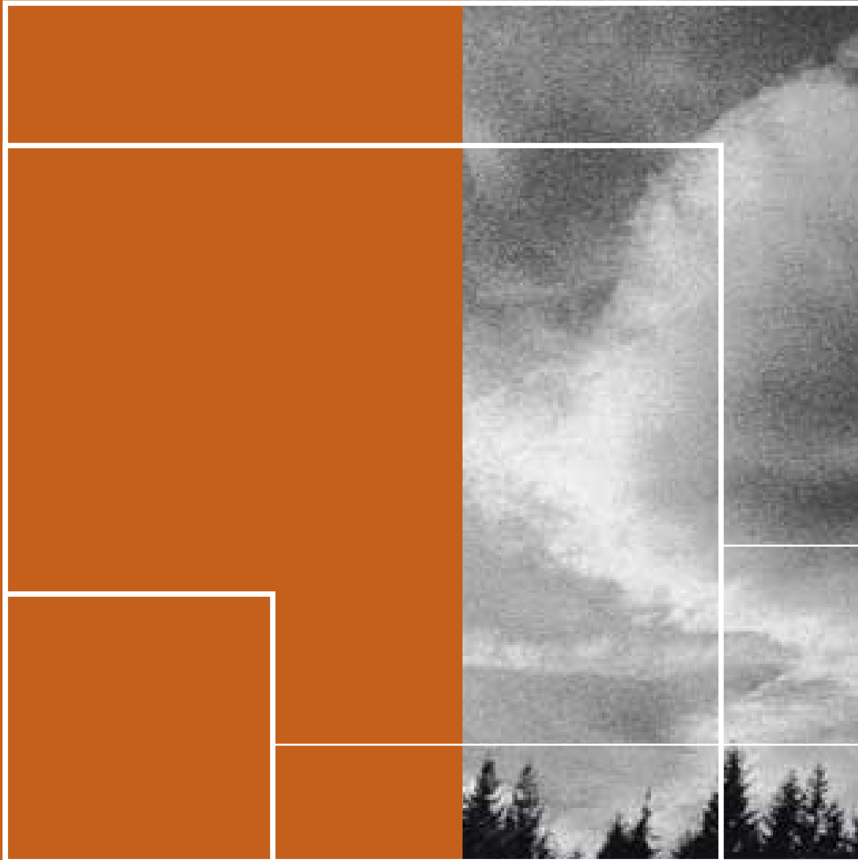
SEEING THE BIG PICTURE

As part of Plum Creek's ongoing activities to maximize the return on our resource base, we approach our higher and better use (HBU) lands as a distinct, value-adding opportunity. To date, we have identified 150,000 acres of timberlands—nearly 5 percent of our current land holdings—as having near-term, value-adding opportunities for conservation, recreational and residential development. Many of these HBU lands will be conserved for the public through thoughtful, market-timed sales and exchanges in collaboration with a mix of government and non-profit organizations. Plum Creek has a track record of working closely and creatively to craft mutually beneficial transactions that unlock the full value of these lands for the Company while preserving the public's interest.

In 1999, we seized a timely opportunity to negotiate a multi-party transaction that adds 65 miles of lakeshore and riverfront and 3,000 acres of scenic lands near the Appalachian Trail to Maine's public reserved land system. In return, we received 15,000 acres of productive timberlands adjoining our existing holdings in the region. Completed during our first year of ownership in Maine, this HBU transaction ensures continued public access to some of the state's most treasured natural areas. At the same time, it enhances Plum Creek's working forest base and our long-term ability to practice sustainable forestry.

With every HBU transaction we complete, we build on our know-how and win-win reputation which serve the Company, and our shareholders, in bringing the next deal to successful fruition.

As the value of lands for conservation and development increases with demand, so do our opportunities. Through a range of predevelopment activities, we will continue to evaluate and position our HBU lands to capitalize on public and private sector opportunities to protect, create and capture their value.


OPERATING INCOME FROM HIGHER AND
BETTER USE LAND SALES
$20 million
'99
$14 million
'97
$2 million
'95

Our environmental leadership is more than good stewardship, it's good business.

HENNING STABINS
Wildlife Biologist

LEADING THE WAY

Every year, Plum Creek's standing as the industry's environmental leader contributes more to the growing value of the Company. In an era of increasing customer and public expectations for environmental stewardship, our voluntary initiatives give us the predictability to plan ahead and manage our timberlands for maximum return, while heightening our profile as a preferred company with which to do business.

In 1999, we became the first company to complete a third-party audit of our timberlands for compliance with the guidelines of the Sustainable Forestry Initiative (SFI). The independent audit, by PricewaterhouseCoopers LLP, showed all Plum Creek timberlands to be in full voluntary compliance with SFI standards. Created by the American Forest and Paper Association, the SFI is similar to our own Environmental Principles in ensuring that forest management is integrated with the conservation of soil, air and water resources; wildlife and fish habitat; and aesthetics. As public demand increases for third-party verification of sustainable forestry practices, Plum Creek demonstrates not only compliance, but industry leadership, in supporting the SFI.

Our own Environmental Principles continue to shape the way we do business. In 1999, we fully incorporated them into the management and operations of our Northeast timberlands, bringing our newest region into accord with Plum Creek's tenets of environmental stewardship.

We continue to develop new Habitat Conservation Plan (HCP) initiatives, building on the knowledge gained through the Cascade HCP and the Swan Valley Grizzly Bear Conservation Agreement. In December 1999, we completed a draft Native Fish HCP to protect the habitat of bull trout and other native fish on 1.6 million acres of our timberlands in Washington, Idaho and Montana. In our Southern Region, we are developing a 30-year HCP to create a special conservation area for the endangered red-cockaded woodpecker. Both proposals will be open and responsive to extensive review by government agencies and public forums in the year ahead.

Plum Creek's environmental leadership allows us to manage our timberlands far into the future with greater foresight and certainty. As we embark on a new century, it is our employees' innovation and agility in applying our business strategies that distinguishes our Company—and adds value.

SUSTAINABLE FORESTRY INITIATIVE

(SFI TRAINED CONTRACTORS USED COMPANYWIDE)

91% '99

78% '97

44% '95

At Plum Creek, environmental management is a daily process of continuous improvement. Based on the Environmental Principles we set for ourselves in 1991, we've made significant, demonstrable progress year after year. And 1999 was no exception. As we enter a new century, we take pride in being the environmental forestry leader today—and in expecting even greater things of ourselves tomorrow.

Plum Creek's foresters follow strict guidelines set forth by the SFI and our own Environmental Principles to ensure the proper reforestation of our timberlands.

OUR ENVIRONMENT: CONTINUOUS IMPROVEMENT

At Plum Creek, we know that the path to remaining the leader in responsible resource management and environmental protection is through continuous improvement in everything we do. From sustainable forestry practices and advances in science and technology to our manufacturing processes, we put our Environmental Principles into action daily across the Company.

One of our most effective tools in measuring progress is our audit program, which puts our performance into consistent, quantifiable terms. We have established an effective system of internal audits and independent, third-party audits to assess our achievements in sustainable forestry, workplace safety and compliance with environmental laws.

Ultimately, the key to continuous improvement is our people—the highly skilled foresters, manufacturing employees, scientists and managers who bring Plum Creek's Environmental Principles to life. Their success is fundamental to the long-term health of our business.

SUSTAINABLE FORESTRY PRACTICES

The Sustainable Forestry Initiative: Over the last decade, Plum Creek has been a leader in practicing environmentally and economically sound forestry practices. As such, Plum Creek has been in the forefront of those urging the industry to adopt a code of sustainable forest management practices. Over the last several years the industry has done just that. Created by the American Forest and Paper Association (AF&PA), the Sustainable Forestry Initiative (SFI) is a set of broad environmental guidelines that all member companies agree to follow. Its purpose is to ensure that all companies associated with AF&PA meet the needs of the present without compromising the ability of future generations to meet their own needs. Similar to Plum Creek's own Environmental Principles, the program integrates the planting, management, growing, nurturing and harvesting of trees for useful products with the conservation of soil, air and water quality, wildlife and fish habitat, and aesthetics. Plum Creek is pleased to report that its forest management practices are in compliance with the SFI's standards.

Proof of Our Performance: In 1999, Plum Creek became the first company to undertake an independent, third-party SFI audit of all our timberlands. We began the process by hiring an internationally recognized audit firm, PricewaterhouseCoopers LLP. The audit team

Some of Maine's most spectacular recreational lands are along the shores of Moosehead Lake. Plum Creek sold much of the shoreline in this photo to the State of Maine in September.

included experts in biology, silviculture, soils and forest management who examined randomly chosen Plum Creek operations for compliance with SFI standards. In 1999, the team reviewed our timber harvest practices, road construction, reforestation, streamside management, and many other activities.

When the audits were completed, the team concluded that Plum Creek was in compliance with the standards and guidelines of the SFI in all material respects. The auditors highlighted many areas where Plum Creek's management practices were exceptional: new road construction; knowledge and protection of soil conditions; use of habitat conservation planning; and our foresters' unique degree of flexibility in applying appropriate harvest techniques. The areas identified as opportunities for improvement included internal record keeping and data management; and identifying ways for others in the forestry community to participate in sustainable forestry.

The SFI audit process helps reinforce our own environmental principles. What's more, it provides further assurances to our customers, investors, employees and the communities of which we are a part that Plum Creek is indeed a leader in Environmental Forestry.

Special Places: The SFI Program includes objectives for special treatment of "lands of ecologic, geologic, or historic significance." Toward that end, Plum Creek completed several transactions in 1999 that will preserve the public value of special places on our lands.

In December, we completed a major land exchange with the United States Forest Service, which placed 31,713 acres of Plum Creek land in central Washington into public ownership. The land includes prized areas of old growth, important biological habitat and areas of great scenic beauty in the Cascade Mountains. In exchange, Plum Creek received 11,586 acres of more manageable forestlands located closer to West Coast markets.

Also in December, in partnership with the Trust for Public Lands, we completed the sale of approximately 2,500 acres of pristine forestland around Lindbergh Lake in Montana to the United States Forest Service. The transaction was supported by a broad coalition of local community organizations and statewide environmental groups.

In September, Plum Creek sold 65 miles of prime waterfront lands along Moosehead and

Recent advances in GIS technology provide our foresters with accurate, up-to-date information at their fingertips.

Flagstaff Lakes and the Kennebec River to the State of Maine. This sale, heralded as "a dream come true" by state officials and recreational enthusiasts, was the result of a commitment Plum Creek made when we purchased the Maine properties in 1998.

SCIENCE AND TECHNOLOGY

Plum Creek's commitment to continuous improvement is most evident in its scientific and technological advances. Never before in the Company's history has so much important information been available to those who need it. From identifying sensitive areas in the forest to eliminating waste products at our mills, Plum Creek's advances put us on the leading edge of using technology to protect our environment and create value in our operations.

Geographical Information System (GIS): Accurate mapping of our timberlands is critical for Plum Creek. GIS was adapted by our scientists and technical experts to enable our foresters to make planning and harvesting decisions based on the most current information about roads, tree species and sizes, environmental conditions, and many other factors.

Designed to incorporate Global Positioning System technology, GIS also provides for easy, up-to-the minute changes so that complex federal and state regulations can be included in forest management decisions. It identifies areas that are environmentally sensitive or need special consideration before harvest planning proceeds.

GIS has proven especially valuable in creating and implementing wildlife Habitat Conservation Plans (HCPs). The maps and calculations generated by GIS efficiently track and display monitoring information used to measure the effectiveness of the plans. The Cascade HCP underwent a two-year review with the federal government in 1999 and GIS was instrumental in assessing the Company's scientific and operational efforts in making this plan a success.

Two additional HCPs currently under development by Plum Creek—for native fish in the Northwest and red-cockaded woodpeckers in the South—would not be economically feasible without our GIS. It allows us to precisely map the HCP areas during planning, and to accurately monitor progress over the life of the plan.

High-tech Lumber: The making of wood products at Plum Creek has become a high-tech process that allows us to continually improve wood fiber recovery—an important objective

To maximize the use of our timber resources, Plum Creek remanufacturing plants take short, narrow boards and fingerjoint them together to add length, then edge-glue these to make wide boards.

of our own Environmental Principles and the SFI. Technological innovations allow us to make the best use of our forests and gain the highest value possible from each tree we harvest.

Computerized infrared scanners look at each log and "tell" the saws how to cut the highest-value lumber or veneer. Specially mounted saws can even follow the natural curves in a log to maximize longer, straighter lumber.

At our remanufacturing plants, lower-value lumber is scanned for defects and chopped into small pieces of higher value. These pieces are glued back together through a fingerjointing process to make higher-value structural lumber. We also glue narrow boards together edge-to-edge to make wide boards for shelving and tabletops.

HEALTH AND SAFETY

In our manufacturing facilities, continuous improvement is a way of life. 1999 marked a year of significant investments in our mills and measurable improvements in emissions, safety and waste reduction. As in our forests, internal and external audits in our mills play a major role in identifying our successes and areas for improvement.

Reducing Pollution: Plum Creek continues to reduce air emissions from our mills through upgrades and additions of emission-control technology. At our facility in Joyce, Louisiana, new state-of-the-art equipment and process optimization have lowered overall air emissions by more than 30 percent from 1998 levels. We expect further improvements in 2000.

Compliance Auditing: In accordance with our Environmental Principles, Plum Creek conducts yearly audits of our mills for compliance with environmental and safety requirements. Our audits help us accomplish three purposes: reinforce Plum Creek's commitment to compliance; educate our employees about current requirements; and identify issues before they become problems.

In 1999, we conducted internal audits of our environmental and safety performance. In 2000, an independent, third-party auditor will conduct a full audit of all our facilities.

Our audit program has resulted in safer, more consistent practices that support our quest for continuous improvement in operating our facilities, and reinforce our culture of compliance with environmental and safety requirements.

Winnfield, Louisiana

MANAGEMENT'S STATEMENT OF SUSTAINABLE FORESTRY INITIATIVE COMPLIANCE

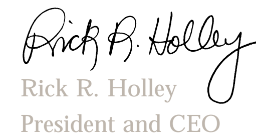
Plum Creek Timber Company believes that an important element of our ongoing success is responsible environmental management. With that in mind, we developed and adopted a set of Environmental Principles in 1991 to guide all of our operations and activities. These principles, which are regularly reviewed and updated, were developed by Plum Creek foresters, scientists and managers with the best working knowledge of the Company's operations.

These principles form the backbone of our Environmental Management Program, which is overseen by the Audit and Compliance Committee of our Board of Directors. Under this program, compliance with our Environmental Principles is linked directly to management compensation. The program also provides training for all employees, regular internal and external audits, and follow-up in areas where opportunities for improvement are noted. As a result of all of these efforts, environmentally responsible management has become an integral part of our culture, from our timberlands and manufacturing facilities to how we interact with the communities where our operations are located.

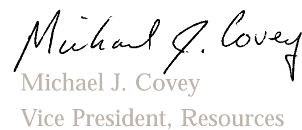
While we believe that our forest practices meet the highest environmental standards, we wanted to provide additional assurances to our customers, shareholders, and the communities in which we work. Accordingly, in 1999 we asked PricewaterhouseCoopers LLP to independently audit our compliance with the objectives of the Sustainable Forestry Initiative Program (SFI). The Report of Independent Accountants and description of SFI follow.

As a result of the efforts of our employees to implement our Environmental Management Program, we are proud to report that Plum Creek was found to be in compliance, in all material respects, with the objectives of the Sustainable Forestry Initiative Program.

October 29, 1999



Rick R. Holley
President and CEO



Michael J. Covey
Vice President, Resources

South Woodward Creek,
Swan Valley, Montana

REPORT OF INDEPENDENT ACCOUNTANTS

TO BOARD OF DIRECTORS AND MANAGEMENT
OF PLUM CREEK TIMBER COMPANY, INC.

We have examined management's assertion, included in the accompanying statement that Plum Creek Timber Company, Inc. (the Company) has met the objectives of the American Forest & Paper Association (AF&PA) Sustainable Forestry Initiative Program objectives (the Objectives) on its timberlands as of October 29, 1999. Management is responsible for the Company meeting these Objectives.

Our responsibility is to express an opinion on management's assertion that the Company met these objectives based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company meeting the objectives and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Company met, in all material respects, the aforementioned Objectives as of October 29, 1999, based on the criteria set forth in the AF&PA Sustainable Forestry Initiative Program.

PricewaterhouseCoopers LLP

Seattle, Washington
November 15, 1999

Plum Creek participates in a number of cooperative research projects throughout our operating areas. The scientific information we gain from these projects will help us in our quest for continuous improvement in managing our lands for both economic and ecological goals.

OBJECTIVES OF THE SUSTAINABLE FORESTRY INITIATIVE

The Sustainable Forestry Initiative (SFI), developed by the American Forest & Paper Association, is an ambitious program to ensure the renewal and continuous improvement of the management of our nation's forests. The core conviction supporting the SFI program is that responsible environmental practices make good business sense. Today over 57 million acres of private forestlands are enrolled in the program. Plum Creek was one of the first timber companies to have all of its timberlands independently verified as being in compliance with SFI. The objectives of the SFI program are as follows:

OBJECTIVE 1 Broaden the practice of sustainable forestry by employing an array of scientifically, environmentally, and economically sound practices in the growth, harvest, and use of forests.

OBJECTIVE 2 Promptly reforest harvested areas to ensure long-term forest productivity and conservation of forest resources.

OBJECTIVE 3 Protect the water quality in streams, lakes, and other waterbodies by establishing riparian protection measures based on soil type, terrain, vegetation, and other applicable factors, and by using EPA-approved Best Management Practices in all forest management operations.

OBJECTIVE 4 Enhance the quality of wildlife habitat by developing and implementing measures that promote habitat diversity and the conservation of plant and animal populations found in forest communities.

OBJECTIVE 5 Minimize the visual impact by designing harvests to blend into the terrain, by restricting clearcut size and/or by using harvest methods, age classes, and judicious placement of harvest units to promote diversity in forest cover.

OBJECTIVE 6 Manage Company lands of ecologic, geologic, or historic significance in a manner that accounts for their special qualities.

OBJECTIVE 7 Contribute to biodiversity by enhancing landscape diversity and providing an array of habitats.

OBJECTIVE 8 Continue to improve forest utilization to help ensure the most efficient use of forest resources.

OBJECTIVE 9 Continue the prudent use of forest chemicals to improve forest health and growth while protecting employees, neighbors, the public, and sensitive areas, including streamcourses and adjacent lands.

OBJECTIVES FOR SUSTAINABLE FORESTRY BY PROGRAM PARTICIPANTS IN THE PROCUREMENT OF WOOD AND FIBER FROM LOGGERS AND OTHER LANDOWNERS

OBJECTIVE 10 Broaden the practice of sustainable forestry by further involving nonindustrial landowners, loggers, consulting foresters and Company employees who are active in wood procurement and landowner assistance programs.

OBJECTIVES FOR PROGRAM PARTICIPANTS FOR PUBLIC REPORTING AND INVOLVEMENT IN THE PRACTICE OF SUSTAINABLE FORESTRY

OBJECTIVE 11 Publicly report Program Participants' progress in fulfilling their commitment to sustainable forestry.

OBJECTIVE 12 Provide opportunities for the public and the forestry community to participate in the commitment to sustainable forestry.

SELECTED FINANCIAL DATA

($ in millions, except per Share/Unit)	1999[1,2]	1998[3]	1997	1996[4]	1995
For the year:					
Revenues	$ 460.6	$ 699.4	$ 725.6	$ 633.7	$ 585.1
Depreciation, depletion and amortization	59.7	69.3	70.2	56.9	54.1
Operating income	146.4	141.1	173.3	165.0	159.0
Income before cumulative effect of accounting change	113.4	75.4	111.7	223.6	110.7
Cumulative effect of accounting change	12.2				
Net income	125.6	75.4	111.7	223.6	110.7
Capital expenditures[5]	25.6	64.3	28.3	19.3	30.7
Net cash provided by operations	138.0	164.0	190.0	171.9	165.2
Income before cumulative effect of accounting change per Share/Unit	1.72	0.90	1.72	4.71	2.17
Net income per Share/Unit	1.94	0.90	1.72	4.71	2.17
Cash distributions declared per Share/Unit	2.28	2.28	2.20	2.02	1.96
Pro forma amounts, assuming the change in accounting was applied retroactively:					
Net income	113.4	77.2	112.9	224.7	112.5
Net income allocable to Common Stockholders/Unitholders	96.3	43.5	81.0	197.0	90.0
Net income per Share/Unit	1.72	0.94	1.75	4.73	2.22
At year end:					
Working capital	59.1	129.6	158.3	153.0	111.5
Total assets	1,250.8	1,438.2	1,330.9	1,336.4	826.1
Total debt	649.1	961.0	763.4	780.8	531.4
Stockholders'/partners' capital[6]	533.0	405.4	470.3	491.6	233.9
OPERATING DATA:					
Northwest timberlands fee timber harvested (M Cunits)[7]	987	1,048	1,091	1,234	1,195
Southern timberlands fee timber harvested (M Cunits)	697	764	799	127	–
Northeastern timberlands fee timber harvested (M Cunits)[7]	404	44	–	–	–
Lumber production (MMBF)	743	635	582	461	433
Plywood production (MMSF) (3/8" basis)[8]	337	323	312	297	294
MDF production (MMSF) (3/4" basis)	136	132	127	113	102

[1] Revenues; Depreciation, Depletion and Amortization; Operating Income; Capital Expenditures; Net Cash Provided by Operations; Working Capital; Total Assets and Total Debt are not comparable with the prior years as a result of the July 1, 1999, REIT conversion. See Note 1 of notes to financial statements.

[2] During 1999 the corporation changed its accounting policy for reforestation costs. See Note 1 of the Notes to Financial Statements.

[3] Results include the impact of an acquisition of 905,000 acres of timberland in Maine from November 12, 1998.

[4] Included in 1996 results of operations was a gain of $105.7 million related to the sale of 107,000 acres of timberlands in northeast Washington and northern Idaho and the impact from that sale from October 12, 1996. Results also include the impact of the acquisition from Riverwood International Corporation of 538,000 acres of timberland and related assets in Louisiana and Arkansas from October 19, 1996.

[5] Does not include $181.1 million related to the Maine acquisition in 1998 or $560.7 million related to the Southern Region acquisition in 1996.

[6] The partnership issued 5.7 million units during 1996 for net proceeds of $144.3 million. The corporation issued 5.75 million shares during the fourth quarter of 1999 for net proceeds of $141.7 million.

[7] Historical data has been converted from MMBF in the Northwest and M Tons in the Northeast to M Cunits for comparability.

[8] Does not include 111 MMSF in 1998, 200 MMSF in 1997 and 37 MMSF in 1996, related to production at the Joyce, Louisiana, plywood facility which was closed in July 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of the Private Litigation Reform Act of 1995, which are generally identified by words such as "may," "should," "seeks," "believes," "expects," "intends," "estimates," "projects," "strategy" and similar expressions or the negative of those words. Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from those projected, expressed or implied in the statements. These risks and uncertainties, many of which are not within the corporation's control, include, but are not limited to, the cyclical nature of the forest products industry, our ability to harvest our timber, our ability to execute our acquisition strategy, and regulatory constraints. These risks are detailed from time to time in our Securities and Exchange Commission filings. Forward-looking statements speak only as of the date made, and neither the Company nor its management undertakes any obligation to update or revise any forward-looking statements. It is likely that if one or more of the risks and uncertainties materializes, the current expectations of the corporation and its management will not be realized.

OVERVIEW

REIT Conversion. On July 1, 1999, Plum Creek Timber Company, L.P., the former partnership and registrant, converted from a master limited partnership to a real estate investment trust (REIT) in the form of a corporation. In order to qualify as a REIT, substantially all assets and associated liabilities related to manufacturing operations and harvesting activities and some higher and better use lands were transferred to several unconsolidated corporate subsidiaries. Following the transfers, Plum Creek Timber Company, Inc., the new corporation and successor registrant, is entitled to approximately 99% of the economic value of the unconsolidated subsidiaries through a combination of preferred stock and nonvoting common stock. The remaining 1% of the economic value and 100% of the voting control of the manufacturing and harvesting subsidiaries are owned by four individuals who are also officers of the corporation.

The corporation's financial statements reflect the deconsolidation of the manufacturing and harvesting operations along with some higher and better use land sales effective July 1, 1999. Therefore, the financial statements for the year ending December 31, 1999, are not comparable to prior period financial statements. However, in accordance with Statement of Financial Accounting Standard No. 131, "Disclosure about Segments of an Enterprise and Related Information," the corporation has the same five reportable business segments as the former registrant. Furthermore, the segment disclosure has been prepared on a basis consistent with that of the partnership. See Notes 1, 5, 8, 9 and 12 of the Notes to Financial Statements for further discussion of how the financial statements have been impacted by the REIT conversion.

Non-recurring Items. During 1999 we had the following unusual items which impacted our results of operations:

1_ *Income Tax Benefit:* In connection with the REIT conversion, a one-time income tax benefit of approximately $14.0 million was recorded by the corporation for the net temporary differences associated with the assets and liabilities transferred to the unconsolidated subsidiaries. See Note 1 of the Notes to Financial Statements.

2_ *Accounting Method Change:* We changed our accounting policy with respect to reforestation costs and other costs associated with the planting and growing of trees. The cumulative effect of the accounting method change increased 1999 net income by $12.2 million. Furthermore, 1999's operating income increased by $2.9 million as a result of the accounting method change. See Notes 1 and 14 of the Notes to Financial Statements.

3_ *REIT Conversion Costs:* In connection with the REIT conversion, we incurred $5.1 million of reorganization costs in 1999 and $4.8 million in 1998. See Note 1 of the Notes to Financial Statements.

4_ *Land Exchange:* In our Cascade Region, we received 11,586 acres of timberlands plus $4.3 million of cash from the United States Forest Service in exchange for 31,713 acres of timberlands. The cash portion of this exchange resulted in a non-operating income gain of $3.6 million. See Note 9 of the Notes to Financial Statements.

EVENTS AND TRENDS AFFECTING OPERATING RESULTS

Market Forces. The demand for logs and manufactured wood products depends upon international and domestic market conditions, the value of the United States dollar in foreign exchange markets, competition, the availability of substitute products and other factors. In particular, the

demand for logs, lumber, plywood and medium density fiberboard is affected by residential and industrial construction, and repair and remodel activity. These activities are subject to fluctuations due to changes in economic conditions, tariffs, interest rates, population growth and other economic, demographic and environmental factors. Additionally, the demand for logs is impacted by the demand for wood chips in the pulp and paper markets.

Current Market Conditions. Prices for domestic logs in our Cascade Region increased in 1999 by 10% from 1998 levels, primarily due to strong lumber markets and the redirection of export logs to the domestic market as a result of a weak Japanese economy. Prices for domestic logs in our Rocky Mountain Region improved modestly in 1999 compared to 1998 prices, primarily due to favorable lumber markets and a declining supply of logs in the region. The supply of logs in the Rocky Mountain Region has decreased due to the continued reduction in Federal and state timber sales. Pulp log and chip prices in the Northwest remained weak during 1999, primarily due to the abundant supply of chips as a result of strong lumber and plywood production. Prices for sawlogs and pulp logs in our Northeast Region generally remained weak during 1999, primarily due to the abundant supply of logs as a result of favorable weather-related harvesting conditions. Domestic log prices in the Southern Region for 1999 were 12% lower than 1998 prices, and pulp log prices decreased by 7% compared to 1998 prices. The decrease in Southern log prices was primarily due to the abundant supply of logs throughout the region. The supply of logs increased primarily due to exceptionally favorable harvesting conditions as result of unusually dry weather conditions during most of 1999.

Export log prices for the Cascade Region in 1999 were comparable to 1998 prices. Demand for export logs during 1999 remained flat primarily due to a weak Japanese economy and low consumer confidence in that country. Japanese housing starts in 1999 of 1.2 million were comparable to the number of housing starts in the prior year.

Composite indices for commodity lumber prices were 15% higher in 1999 than in 1998, primarily due to the strong demand for lumber as a result of a robust United States economy and strong consumer confidence. United States housing starts for 1999 were at the highest level since 1986. Lumber prices in the Southern United States during 1999, however, improved only moderately over the prior year. The limited price improvement in the South was primarily due to the region's record lumber production during 1999 and the greater use of Western species versus Southern Yellow Pine in the housing sector. Board prices during 1999 strengthened over the prior year primarily due to the robust United States economy, strong repair and remodeling activity, and a declining supply of boards. The supply of boards has decreased as a result of European producers shifting their production to dimension lumber.

Composite indices for commodity plywood prices were 21% higher in 1999 than in 1998, primarily due to strong United States building activity, low field inventories, rising oriented strand board prices and several plywood mill closures. Industrial and specialty-grade plywood prices also improved in 1999 compared to 1998, primarily due to a strong United States economy, low interest rates and favorable demographics. However, commodity and industrial plywood prices declined sharply during the fourth quarter of 1999. The fourth quarter price decline was primarily due to the seasonal slowdown in building activity and an excess supply of plywood in the market. Oriented strand board sales now account for over 50% of the structural panel market. Fourth quarter 1999 commodity plywood prices were comparable to commodity plywood prices during the fourth quarter of 1998.

Medium density fiberboard prices improved by 6% in 1999 over 1998 prices, primarily due to demand outpacing supply. North American annual consumption continues to rise at a rate of about 12%, largely due to increased acceptance in a wide range of existing and new applications. At the same time, North American medium density fiberboard production growth has slowed as a result of recently constructed mills now being at or near full capacity.

Comparability of Financial Statement Periods. The corporation has pursued and will continue to pursue the acquisition of additional timberlands to increase inventories of fee timber. On November 12, 1998, the corporation completed the acquisition of 905,000 acres in Maine. On October 18, 1996, the corporation completed the acquisition of approximately 529,000 (plus 9,000 acres of leased land) acres in Louisiana and Arkansas. The corporation may also, from time to time, sell timberlands and facilities if attractive opportunities arise. On January 14, 2000, we sold approximately 90,000 acres of timberlands near St. Maries, Idaho. Accordingly, the comparability of periods covered by the corporation's financial statements is, and in the future may be, affected by the impact of acquisitions and divestitures.

Harvest Plans. We determine our annual roundwood (sawlogs and pulpwood) harvesting plans based on a number of factors. At the stand level, ranging in size from 10 to 200 acres, we consider the age, size, density, health and economic maturity of the timber. A stand is a continuous block of trees of a similar age, species mix and silvicultural regime. At the forest level, ranging in size from 240,000 to 760,000 acres, we consider the long-term sustainability and environmental impact of certain levels of harvesting, a forest's progression from an unmanaged to a managed forest, and the level of demand for wood within the region. A forest is a broad administrative unit, made up of a large number of stands.

Active forest management involves the conversion of a forest from an unmanaged to a managed state. An unmanaged forest is made up largely of mature and over-mature stands of timber which are growing slowly, both in terms of volume and value. In a managed forest, there exists a range of age classes, from recently planted stands to economically mature stands. The conversion of a forest from an unmanaged to a managed state can take from one to two forest generations, or rotations. Toward the end of the initial conversion process, a decline in the inventory volume is normal as the harvest of mature and over-mature stands ends, and the younger, faster growing stands have yet to reach final harvest age.

Harvest levels in the Rocky Mountain Region, after adjusting for the January 14, 2000, disposition of approximately 90,000 acres near St. Maries, Idaho, were 652,000 cunits in 1998 and 653,000 cunits in 1999. Harvest levels in 2000 are expected to decline by 4% compared to the adjusted 1999 harvest. (Actual, non-adjusted harvest levels in the Rocky Mountain Region were 715,000 cunits in 1998 and 706,000 cunits in 1999.) Beyond 2000, we expect harvest levels to decline moderately as the process of converting slower growing forests to younger, more productive stands nears completion.

Harvest levels in the Cascade Region (including sawlogs and pulpwood) were 333,000 cunits in 1998 and 281,000 cunits in 1999. Harvest levels in 2000 are expected to decline by 5% compared to 1999. Beyond 2000, we expect harvest levels to continue to decline for the foreseeable future as the conversion of slower growing forests to younger, more productive stands is completed.

Harvest levels in the Northeast Region were 404,000 cunits in 1999, and are anticipated to approximate this level for the foreseeable future. The Northeast Region's forests are in a managed state where the acreage is relatively evenly distributed among age classes, and harvest levels approximate growth rates.

Harvest levels in the Southern Region were 764,000 cunits in 1998 and 697,000 cunits in 1999. Harvest levels in 2000 are expected to decline by 8% compared to the 1999 harvest level. During 1999, we substantially completed both the conversion of mature second growth pine timberlands into intensively managed pine plantations and the acceleration of thinning operations to improve growth rates. As a result, the corporation anticipates moderate declines in harvest levels through 2003. Thereafter, harvest levels are expected to gradually increase as we benefit from faster growing, intensively managed plantations.

Actual harvest levels may vary from planned levels due to log demand, sales prices, the availability of timber from other sources, the availability of legal access, and other factors that may be outside of our control. We believe that our harvest plans are sufficiently flexible to permit modification in response to short-term fluctuations in the markets for logs and lumber in order to minimize the variance to planned harvest levels.

Smurfit Stone Container Corporation. A substantial portion of our wood chips derived from the manufacturing lumber and plywood operations in the Rocky Mountain Region were sold to Smurfit Stone Container Corporation under a long-term supply agreement. This agreement generally provided for market-based pricing for residual wood chips, subject to certain minimum and maximum prices until December 31, 1999. If market prices for chips remain at current levels, which are below the minimum level previously set by the supply agreement, annual operating income related to sales of residual wood chips will be reduced by approximately $11 million starting in the year 2000. The actual impact will depend on future market prices.

RESULTS OF OPERATIONS

The following table compares operating income by segment for the years ended December 31:

OPERATING INCOME BY SEGMENT

(In Thousands)	1999	1998	1997
Northern Resources	$ 90,712	$ 73,715	$ 98,792
Southern Resources	37,117	53,568	54,313
Lumber	23,274	2,599	34,667
Panel	26,491	14,360	8,462
Land Sales	19,846	26,598	13,963
Other	–	(2,247)	(1,152)
Total Segment Operating Income	197,440	168,593	209,045
Other Costs and Eliminations	(21,701)	(27,506)	(35,764)
Total Combined Operating Income	175,739	141,087	173,281
Less Operating Income recognized by Unconsolidated Subsidiaries	(29,315)		
Operating Income	$ 146,424	$ 141,087	$ 173,281

The accounting policies of the segments are substantially the same as those described in Note 1 of the Notes to Financial Statements. For segment purposes, however, inventories are stated at the lower of average cost or market on the first-in, first-out method. The difference in computing cost of goods sold under the last-in, first-out and first-in, first-out methods is included in "Other Costs & Eliminations."

1999 COMPARED TO 1998

Northern Resources Segment. Revenues increased by $41.6 million, or 17%, to $291.9 million in 1999, compared to $250.3 million in 1998. This increase was primarily due to $46.4 million of additional revenue as a result of our Maine acquisition in November 1998 and higher domestic log prices in both the Rocky Mountain and Cascade Regions, offset in part by lower harvest levels in the Cascade Region and lower export log sales to Japan. Domestic log prices in the Cascade Region increased by 10%, primarily due to continued strong building activity in the United States and the selling of export quality logs to domestic mills. Domestic log prices in the Rocky Mountain Region increased by 3%, primarily due to the limited supply of logs in the region as a result of declining Federal and state timber sales and strong building activity. Harvest levels (both export and domestic sawlogs) in the Cascade Region decreased by 16%, primarily due to planned harvest reductions. Furthermore, export log sales volume decreased by 23%, primarily due to the weak Japanese economy, increased availability of substitute products (e.g., Russian logs and European lumber) and the diversion of export quality logs to the stronger domestic market.

Northern Resources Segment operating income was 31% of its revenues for 1999 and 29% for 1998. Northern Resources Segment costs and expenses increased by $24.6 million, or 14%, to $201.2 million in 1999, compared to $176.6 million in 1998. This increase was primarily due to $34.4 million of additional costs as a result of the Maine acquisition, offset in part by lower harvest levels in the Cascade Region and a $2.2 million decline in reforestation expenses as a result of our change in accounting for reforestation costs.

Southern Resources Segment. Revenues decreased by $19.2 million, or 16%, to $99.2 million in 1999, compared to $118.4 million in 1998. This decrease was primarily due to lower sawlog and pulp log prices and lower pulp log sales volume. Sawlog prices decreased by 12%, primarily due to an abundant supply of logs throughout the region and a higher percentage of smaller logs. Log sizes declined in 1999 due to the near completion by the end of 1998 of the conversion of our mature second growth pine timberlands into intensively managed pine plantations. Pulp log sales volume decreased by 14%, primarily due to a planned reduction in harvest levels as a result of the near completion of accelerated thinning operations to improve growth rates. Pulp log prices decreased by 7%, primarily due to an abundant supply of wood fiber and weak paper markets.

Southern Resources Segment operating income was 38% as a percentage of its revenues for 1999 and 45% for 1998. This decline was primarily due to lower sawlog and pulp log prices. Southern Resources Segment costs and expenses decreased by $2.7 million, or 4%, to $62.1 million in 1999, compared to $64.8 million in 1998, primarily due to lower pulp log sales volume.

Lumber Segment. Revenues increased by $61.8 million, or 22%, to $343.4 million in 1999, compared to $281.6 million in 1998. Excluding the incremental increase in revenues of $14.7 million related to the May 1998 acquisition of the Meridian, Idaho, remanufacturing facility, revenues increased by $47.1 million. This increase was primarily due to a 12% increase in lumber sales volume and a 7% increase in Northwest lumber prices. Lumber sales volume increased primarily due to a 51% increase in production volume at our Joyce, Louisiana, sawmill and a 12% increase in production volume at our Pablo, Montana, sawmill as a result of mill reconfiguration projects. Northwest lumber prices increased primarily due to the robust United States economy and strong housing starts. Northwest board prices were also favorably impacted by a temporary reduction of European board imports into the United States.

Lumber Segment operating income was 7% as a percentage of its revenues for 1999 and 1% for 1998. This increase was primarily due to higher Northwest lumber prices and lower Southern log costs. Lumber Segment costs and expenses increased by $41.1 million, or 15%, to $320.1 million in 1999, compared to $279.0 million in 1998. Excluding the incremental increase in expense of $13.8 million related to the May 1998 acquisition of the Meridian, Idaho, remanufacturing facility, expenses increased by $27.3 million. This increase was primarily due to increased lumber sales volume, offset in part by lower log costs in our Southern Region.

Panel Segment. Revenues increased by $18.0 million, or 12%, to $172.6 million in 1999, compared to $154.6 million in 1998. This increase was primarily due to higher plywood prices and a 3% increase in plywood sales volume. Plywood prices increased by 10% primarily due to the robust United States economy and strong building activity. During the second and third quarters of 1999, commodity plywood prices reached record high levels due to low field inventories and exceptionally strong building activity.

Panel Segment operating income was 15% as a percentage of its revenues for 1999 and 9% for 1998. This increase was primarily due to higher plywood prices. Panel Segment costs and expenses increased by $5.8 million, or 4%, to $146.1 million in 1999, compared to $140.3 million in 1998. This increase was primarily due to a 3% increase in plywood sales volume and a 4% increase in plywood production costs. Plywood production and related costs were increased to capture additional profits associated with record high plywood prices.

Land Sales Segment. Revenues decreased by $9.1 million, or 28%, to $23.7 million in 1999, compared to $32.8 million in 1998. This decrease was primarily due to 12,236 acres of higher and better use lands being sold during 1999, compared to 14,710 acres in 1998.

Land Sales Segment operating income was 84% as a percentage of its revenues for 1999 and 81% for 1998. Land Sales Segment costs and expenses decreased by $2.4 million, or 39%, to $3.8 million in 1999, compared to $6.2 million in 1998, as a result of decreased sales.

Other Costs and Eliminations (which consists of corporate overhead, intercompany log profit elimination and the change in the LIFO reserve) decreased combined operating income by $21.7 million in 1999, compared to a decrease of $27.5 million in the 1998. The change of $5.8 million was primarily due to lower corporate overhead, offset in part by a decline in the amount of intercompany log profit recognized. Corporate overhead decreased by $12.3 million during 1999, primarily due to $11.4 million of expense recorded in 1998 related to long-term incentive plans for which no expense was incurred in 1999. Deferred intercompany log profit of $0.4 million was recognized during 1999, compared to $6.2 million during 1998. This decrease of $5.8 million was primarily due to the build-up of log inventories in the Southern Resources Segment in the fourth quarter of 1997 and the subsequent processing of these logs in the first quarter of 1998. Similar log inventories were not built up during the fourth quarter of 1998. The profit on intercompany log sales is deferred until the lumber and plywood manufacturing facilities convert existing log inventories into finished products and sell them to third parties, at which time intercompany profit is recognized.

Interest expense increased by $2.9 million, or 5%, to $63.5 million for 1999, compared to $60.6 million for 1998. This increase was primarily due to the issuance of $177 million of senior notes in the fourth quarter of 1998 to finance our Maine timberland acquisition, offset in part by the $170.1 million of debt transferred on July 1, 1999, to the unconsolidated subsidiaries in the REIT conversion.

The income allocated to the general partner decreased by $16.5 million to $17.2 million for 1999, compared to $33.7 million for 1998. This decrease was primarily due to the elimination of the general partner interest on July 1, 1999, as a result of the REIT conversion. See Note 1

of the Notes to Financial Statements. Prior to July 1, 1999, net income was allocated to the general partner based on 2% of the partnership's net income (after adjusting for the incentive distribution), plus the incentive distribution.

1998 COMPARED TO 1997

Northern Resources Segment. Revenues decreased by $23.6 million, or 9%, to $250.3 million in 1998, compared to $273.9 million in 1997. This decrease was primarily due to declining harvest levels in the Cascade Region, lower Rocky Mountain and Cascade Regions domestic log prices, lower export log prices and the redirection of export quality logs to the domestic market, offset in part by $5.8 million of additional revenues as a result of our acquisition in Maine. An approximate 15% planned decline in the sawlog harvest level in the Cascade Region decreased revenue by approximately $13 million. Rocky Mountain Region domestic prices decreased by 4% and Cascade Region decreased 13% compared to 1997, primarily as a result of weak lumber markets and an excess supply of logs. Export prices decreased by 16%, and approximately 35% of export quality logs were redirected to the domestic market, primarily due to a decline in Japanese demand for logs.

Northern Resources Segment operating income was 29% as a percentage of its revenues for 1998 and 36% for 1997. This decrease is primarily due to the decline in domestic and export log prices and the redirection of export quality logs to the domestic market. Northern Resources Segment costs and expenses increased by $1.5 million, or 1%, to $176.6 million in 1998, compared to $175.1 million in 1997. This increase was primarily due to $4.5 million of additional costs as a result of our acquisition in Maine, offset in part by a decrease in harvesting costs in the Cascade Region as a result of reduced harvest levels.

Southern Resources Segment. Revenues decreased by $0.7 million, to $118.4 million in 1998, compared to $119.1 million in 1997. This decrease is primarily due to a 7% decline in Southern domestic log sales volume, offset in part by slightly higher Southern pulp log prices and increased in-woods chipping operations.

Southern Resources Segment operating income was 45% as a percentage of its revenues for 1998 and 46% for 1997. Southern Resources Segment costs and expenses remained flat year to year, with $64.8 million of costs and expenses in each of 1998 and 1997.

Lumber Segment. Revenues decreased by $13.2 million, or 4%, to $281.6 million in 1998, compared to $294.8 million in 1997. Excluding revenues associated with the May 1998 acquisition of the Meridian, Idaho, remanufacturing facility, 1998 revenues decreased by $29.4 million, or 10%, to $265.4 million, compared to $294.8 in 1997. This decrease was primarily due to lower Northwest and Southern lumber prices, offset in part by increased Southern lumber sales volume. Northwest lumber prices decreased 12% and Southern lumber prices decreased 13% compared to 1997, primarily due to the worldwide overproduction of lumber resulting from weak Asian demand. Southern lumber sales volume increased by 4% compared to 1997, primarily due to the processing of additional logs following the July 1998 Southern plywood facility closure.

Lumber Segment operating income was 1% as a percentage of its revenues for 1998 and 12% for 1997. This decrease is primarily due to the severe decline in Northwest and Southern lumber prices. Lumber Segment costs and expenses increased by $18.8 million, or 7%, to $279.0 million in 1998, compared to $260.2 million in 1997. This increase was primarily due to $15.7 million of additional operating costs related to the acquisition of the Meridian, Idaho, remanufacturing facility and increased Southern lumber sales volume.

Panel Segment. Revenues increased by $5.0 million, or 3%, to $154.6 million in 1998, compared to $149.6 million in 1997. This increase was primarily due to increased MDF and plywood sales volume and higher plywood prices. MDF sales volume increased by 7% compared to 1997, primarily due to increased production as a result of operational improvements. Plywood sales volume increased by 2% compared to 1997, primarily due to additional shifts and improved fiber recovery. Plywood prices increased by 2% compared to 1997, primarily due to a higher value product mix.

Panel Segment operating income was 9% as a percentage of its revenues for 1998 and 6% for 1997, primarily due to lower MDF raw material costs and higher plywood prices. Panel Segment costs and expenses decreased by $0.9 million, or 1%, to $140.3 million in 1998,

compared to $141.2 million in 1997. This decrease was primarily due to reduced MDF raw material costs, offset in part by increased MDF and plywood sales volume.

Land Sales Segment. Revenues increased by $14.9 million, or 83%, to $32.8 million in 1998, compared to $17.9 million in 1997. This increase was primarily due to two large land sales consummated in the fourth quarter of 1998 for total proceeds of $17.7 million.

Land Sales Segment operating income was 81% as a percentage of its revenues for 1998 and 78% for 1997. Land Sales Segment costs and expenses increased by $2.3 million, or 59%, to $6.2 million in 1998, compared to $3.9 million in 1997, primarily due to additional sales.

Other Costs and Eliminations (which consists of corporate overhead, intercompany log profit elimination and the change in the LIFO reserve) decreased operating income by $27.5 million in 1998, compared to $35.8 million in 1997. The change in Other Costs and Eliminations of $8.3 million was primarily due to a decrease in the deferral of intercompany log profit elimination, offset in part by increased corporate overhead. During 1998, intercompany log profit of $6.2 million was released while $7.8 million was deferred during 1997. The increase in operating income due to intercompany log profit was primarily due to the build-up of log inventories in Southern Resources in the fourth quarter of 1997 and the subsequent processing of these logs in the first quarter of 1998 during weather-related harvest restrictions. Similar log inventories were not built up during the fourth quarter of 1998. The profit on intercompany log sales is deferred until the lumber and plywood manufacturing facilities convert existing log inventories into finished products and sell them to third parties (at which time intercompany profit is recognized). The decrease in operating income due to corporate overhead was primarily due to achieving the fifth and final target under the Company's 1994 Long-Term Incentive Plan and Key Employee Long-Term Incentive Plan in April 1998. The expense related to these plans was approximately $13.3 million in 1998, compared to $7.8 million in 1997. A portion of the increase was offset by lower incentive compensation accruals due to lower earnings levels.

Reorganization Costs of $4.8 million were costs associated with the conversion of the partnership to a REIT. See Note 1 of the Notes to Financial Statements. Reorganization Costs consist of fees for legal, investment banking and tax consultants, as well as printing and other related costs. Reorganization costs were expensed as incurred.

The income allocated to the general partner increased by $1.8 million to $33.7 million for 1998, compared to $31.9 million for 1997, primarily due to higher quarterly distributions to unitholders. Net income was allocated to the general partner based on 2% of net income (adjusted for the incentive distribution), plus the incentive distribution. The general partner's incentive distribution was based on the number of outstanding units times a percentage of the per unit distribution paid to limited partners, which totaled $2.26 per unit for the year ended 1998, compared to $2.16 per unit for the year ended 1997.

FINANCIAL CONDITION AND LIQUIDITY

Net cash provided by operating activities totaled $138.0 million in 1999, $164.0 million in 1998 and $190.0 million in 1997. As a result of the REIT conversion, net cash provided by operating activities for 1999 is not comparable with net cash provided by operating activities in 1998 and 1997 because of the following:

- Substantially all of the working capital changes after the REIT conversion are reflected on the books of the unconsolidated subsidiaries. However, working capital changes will indirectly impact the corporation through advances to it from the unconsolidated subsidiaries.
- The corporation's share of equity earnings from the unconsolidated subsidiaries is not reflected in its net cash provided by operating activity until the earnings are distributed as either a preferred or common stock dividend. However, to the extent the unconsolidated subsidiaries have excess undistributed cash, these funds are reflected on the corporation's cash flow statement as interest-bearing advances from unconsolidated subsidiaries.

Net cash provided by operating activities for 1999 was $26.0 million below the prior year despite an increase in net income of $50.2 million. Net cash provided by operating activities was lower primarily because the unconsolidated subsidiaries did not distribute to the REIT their excess cash of approximately $33.5 million. Additionally, the higher net income for 1999 included significant non-cash items, such as approximately $14.0 million related to a one-time income tax benefit and

approximately $12.2 million related to the accounting method change. Furthermore, an unfavorable working capital variance of approximately $21.9 million reduced net cash provided by operating activities. The unfavorable working capital variance was primarily due to the funding in 1999 of the fifth and final target of a five-year long-term incentive plan that vested on December 31, 1998, and to changes in inventory levels.

Net cash provided by operating activities in 1998 was $26.0 million below the net cash provided by operating activities in 1997. The decrease was primarily due to lower net income of $36.3 million, offset in part by a favorable working capital variance of $5.9 million.

We have an unsecured line of credit with a group of banks. Subject to customary covenants, the line of credit allows for borrowings from time to time of up to $225 million for general corporate purposes, including up to $20 million of standby letters of credit. The line of credit matures on December 13, 2001, and bears a floating rate of interest. As of December 31, 1999, $77.0 million was outstanding with $148.0 million remaining available. As of January 4, 2000, we repaid the entire balance.

On November 12, 1998, we acquired 905,000 acres of forest lands in central Maine from S.D. Warren Company for a total purchase price of $181.1 million. See Note 2 of the Notes to Financial Statements. The acquisition was financed with approximately $4.0 million in cash and the balance with unsecured promissory notes that were issued to the seller. The notes have an average maturity of approximately ten years. The face amount of the unsecured promissory notes totals $171.4 million, with the stated interest rates ranging from 7.62% to 7.83%. The fair market value of the notes at the time of issuance was $177.0 million, reflecting a note premium due to the notes' above market interest rates. See Note 6 of the Notes to Financial Statements.

In November of 1999 the corporation issued 5,750,000 shares of common stock for proceeds of $141.7 million, net of issuance costs of $7.8 million. The proceeds were used to repay borrowings on our line of credit, with the excess invested in money market funds. The equity offering has improved our debt-to-equity ratio and gives us greater financial flexibility in pursuing our growth strategy.

On January 14, 2000, we sold approximately 90,000 acres of timberlands and higher and better use lands near St. Maries, Idaho, to Crown Pacific Limited Partnership for approximately $73 million. Proceeds from the sale will primarily be used to acquire additional timberlands or reduce our outstanding indebtedness. This sale of non-strategic timberlands provides us greater financial flexibility in pursuing our growth strategy.

Our borrowing agreements contain certain restrictive covenants, including limitations on harvest levels, sales of assets, cash distributions and the incurrence of indebtedness. In addition, the line of credit requires the maintenance of an interest coverage ratio. We were in compliance with these debt covenants as of December 31, 1999.

We will distribute $0.57 per share with respect to the fourth quarter of 1999. The dividend will be paid on February 29, 2000, to shareholders of record on February 16, 2000. Future dividends will be determined by our board of directors, in its sole discretion, based on our results of operations, cash flow and capital requirements, economic conditions, tax considerations, debt covenant restrictions and other factors, including harvest levels and future acquisitions. Our debt agreements restrict distributions to stockholders based on available cash, which is generally our net income after adjusting for non-cash charges (such as depreciation and depletion), changes in various reserves and capital expenditures and principal payments on indebtedness that are not financed.

Cash required to meet our quarterly cash dividends, capital expenditures and principal and interest payments will be significant. Management believes that cash on hand, cash flows from continuing operations and borrowings under our line of credit will be sufficient to fund planned capital expenditures, dividends, and interest and principal payments for the next 12 months.

The corporation's capital expenditures for 1999, excluding the $3.3 million non-cash purchase of timberlands, totaled $25.6 million, compared to $64.3 million for 1998 and $28.3 million for 1997. The amount for 1998 does not include $181.1 million related to the acquisition of timberlands in Maine. After the July 1, 1999, REIT conversion, capital expenditures for the manufacturing operations are reflected on the books of the unconsolidated subsidiaries.

Capital expenditures for 1999 include $18.6 million for our timberland operations and $7.0 million for our manufacturing operations prior to the REIT conversion. Capital expenditures for our timberlands are primarily for logging roads, reforestation costs and other costs associated with the planting and growing of trees. Capital expenditures for 1999 include $5.5 million of costs that were previously expensed under our prior accounting policy for reforestation costs. See Note 1 of the Notes to Financial Statements. Capital expenditures for our manufacturing

MANAGEMENT'S DISCUSSION AND ANALYSIS

facilities for the six months ended June 30, 1999, include $5 million of costs associated with the reconfiguration of our Joyce, Louisiana, sawmill as well as additional equipment and upgrades for our other manufacturing facilities. Capital expenditures for our unconsolidated subsidiaries for the six months ended December 31, 1999, totaled $4.4 million.

Planned capital expenditures for the corporation during 2000 are expected to be $25 million and are primarily for logging roads, reforestation and other costs associated with the planting and growing of trees. Approximately $9 million of these capital expenditures would have been expensed under our prior accounting policy for reforestation costs. Planned capital expenditures for the unconsolidated subsidiaries during 2000 are expected to be approximately $50 million. Year 2000 capital expenditures include $40 million toward construction of a thin-board production line being added to our existing medium density fiberboard facility in Columbia Falls, Montana. Total construction costs for the new production line are expected to be $69 million plus approximately $6 million in capitalized interest. It is expected to be operational by the end of 2001. The remaining $10 million of capital expenditures for the unconsolidated subsidiaries is for additional equipment and upgrades for our other manufacturing facilities.

OTHER INFORMATION

In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133—an amendment of FASB Statement 133." SFAS 133 establishes a new model for accounting for derivatives and hedging activities. The implementation is required for financial statements issued for periods beginning after June 15, 2000. Earlier application is permitted. Adoption of this standard is not expected to have a material impact on the corporation's financial position, results of operations or cash flows.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Approximately $742 million of the long-term debt of the corporation and the unconsolidated subsidiaries bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in market interest rates. Approximately $170.1 million of the long-term debt is recorded on the books of the unconsolidated subsidiaries. The corporation's operating partnership guarantees the long-term debt of the unconsolidated subsidiaries. The following table presents principal cash flows (in thousands) based upon maturity dates of the debt obligations and the related weighted-average interest rates by expected maturity dates for the fixed rate debt. The interest rate on the variable rate debt as of December 31, 1999, was LIBOR plus .40% (8.3%), however, this rate could range from LIBOR plus 0.35% to LIBOR plus 0.875% depending on our financial results.

December 31, 1999:

Long-term debt, including current portion	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value
Fixed rate debt	$ 27,392	$ 27,423	$ 27,458	$ 27,494	$ 27,533	$ 604,898	$ 742,198	$ 729,375
Average interest rate	8.9%	8.8%	8.7%	8.6%	8.5%	8.2%		
Variable rate debt[1]		$ 77,000					$ 77,000	$ 77,000

[1] As of January 4, 2000, the $77 million of variable rate debt was repaid.

CONSOLIDATED/ COMBINED STATEMENT OF INCOME

(In thousands, except per share/unit)	1999 (REIT/MLP)	1998 (MLP)	1997 (MLP)
	Year ended December 31,		
Revenues	$ 460,620	$ 699,370	$ 725,571
Costs and expenses:			
Cost of goods sold	285,822	505,366	503,259
Selling, general and administrative	28,374	52,917	49,031
Total costs and expenses	314,196	558,283	552,290
Operating income	146,424	141,087	173,281
Interest expense	(63,456)	(60,622)	(60,364)
Interest income	1,982	1,042	1,113
Gain (loss) on disposition of assets – net	3,697	(805)	(1,223)
Reorganization costs	(5,053)	(4,763)	–
Other (expense) income – net	(789)	14	(1,031)
Income before income taxes, equity in earnings of unconsolidated subsidiaries and preferred stock dividends and cumulative effect of accounting change	82,805	75,953	111,776
(Provision) benefit for income taxes	13,105	(517)	(80)
Equity in earning of unconsolidated subsidiaries and preferred stock dividends	17,522	–	–
Income before cumulative effect of accounting change	$ 113,432	$ 75,436	$ 111,696
Cumulative effect of accounting change	12,169	–	–
Net income	$ 125,601	$ 75,436	$ 111,696
General Partner interest	17,162	33,713	31,918
Net income allocable to to Common Stockholders/Unitholders	$ 108,439	$ 41,723	$ 79,778
Income allocable to to Common Stockholders/Unitholders per share before cumulative effect of accounting change	$ 1.72	$ 0.90	$ 1.72
Cumulative effect of accounting change per Share	$ 0.22		
Net income per Share/Unit	$ 1.94	$ 0.90	$ 1.72
Dividends declared per Share/Unit	$ 2.28	$ 2.28	$ 2.20
Weighted average number of Shares/Units outstanding – basic and diluted	55,819,390	46,323,300	46,323,300
Pro forma amounts, assuming the change in accounting was applied retroactively:			
Net income	$ 113,432	$ 77,223	$ 112,937
Net income allocable to Common Stockholders/Unitholders	$ 96,270	$ 43,510	$ 81,019
Net income per Share/Unit	$ 1.72	$ 0.94	$ 1.75

See accompanying Notes to Consolidated/Combined Financial Statements.

CONSOLIDATED/ COMBINED BALANCE SHEET

(In thousands)	December 31, 1999 (REIT)	1998 (MLP)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 115,389	$ 113,793
Accounts receivable	828	32,007
Inventories	–	55,963
Timber contract deposits	–	2,647
Investments in grantor trusts	13,721	–
Other current assets	3,378	6,053
	133,316	210,463
Timber and timberlands – net	1,010,524	1,030,484
Property, plant and equipment – net	1,203	186,179
Investment in unconsolidated subsidiaries	100,202	–
Other assets	5,511	11,117
Total assets	$ 1,250,756	$ 1,438,243
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	$ 6,127	$ 18,400
Accounts payable	1,674	15,320
Related party payables	26,522	–
Interest payable	9,623	10,964
Wages payable	949	14,795
Taxes payable	2,034	4,081
Workers' compensation liabilities	26	1,550
Liabilities associated with grantor trust	13,411	–
Deferred income	8,556	–
Other current liabilities	5,282	15,766
	74,204	80,876
Long-term debt	565,950	742,608
Line of credit	77,000	200,000
Workers' compensation liabilities	225	7,495
Other liabilities	330	1,849
Total liabilities	717,709	1,032,828
Commitments and contingencies		

CONTINUED

See accompanying Notes to Consolidated/Combined Financial Statements.

CONSOLIDATED/
COMBINED
BALANCE SHEET

(In thousands)	December 31, 1999 (REIT)	1998 (MLP)
STOCKHOLDERS' EQUITY/PARTNERS' CAPITAL		
Preferred stock, $0.01 par value, authorized shares – 75 million, outstanding – none	–	–
Common stock, $0.01 par value, authorized shares – 300 million, outstanding – 68,572,009	686	–
Special voting stock, $0.01 par value, convertible to common stock, authorized and outstanding – 634,566	6	–
Additional paid-in capital	522,244	–
Retained earnings	9,586	–
Other equity	525	–
Limited Partners' Units	–	406,857
General Partner	–	(1,442)
Total stockholders'/partners' capital	533,047	405,415
Total liabilities and stockholders'/partners' capital	$ 1,250,756	$ 1,438,243

See accompanying Notes to Consolidated/Combined Financial Statements.

CONSOLIDATED/ COMBINED STATEMENT OF CASH FLOW

(In thousands)	1999 (REIT/MLP)	1998 (MLP)	1997 (MLP)
	Year ended December 31,		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 125,601	$ 75,436	$ 111,696
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	59,689	69,287	70,243
Deferred income taxes	(14,030)	–	–
Cumulative effect of accounting change	(12,169)	–	–
(Gain) loss on asset dispositions – net	(3,697)	805	1,223
Equity in earnings of unconsolidated subsidiaries and preferred stock dividends	(17,522)	–	–
Preferred stock dividends	7,838	–	–
Working capital changes, net of effect of business acquisitions and contribution to unconsolidated subsidiaries:			
Accounts receivable	(12,369)	(3,309)	(5,001)
Inventories	9,987	6,974	(5,072)
Timber contract deposits and other current assets	(4,675)	551	11,793
Accounts payable	(3,427)	2,330	(453)
Deferred income	8,556	–	–
Wages payable	(1,651)	(2,361)	3,969
Other accrued liabilities	(7,178)	6,915	(21)
Other	3,041	7,376	1,599
Net cash provided by operating activities	137,994	164,004	189,976
CASH FLOWS FROM INVESTING ACTIVITIES:			
Business acquisitions	–	(12,353)	
Additions to properties	(25,611)	(54,927)	(28,348)
Proceeds from asset dispositions	4,460	1,457	917
Investment in unconsolidated subsidiaries	(24,821)	–	–
Advances/distributions from unconsolidated subsidiaries	58,365	–	–
Other	(1,371)	(11)	(649)
Net cash provided by (used in) investing activities	11,022	(65,834)	(28,080)

CONTINUED

See accompanying Notes to Consolidated/Combined Financial Statements.

(In thousands)	1999 (REIT/MLP)	1998 (MLP)	1997 (MLP)
	Year ended December 31,		
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash distributions	(146,534)	(140,358)	(133,007)
Retirement of long-term debt	(18,810)	(18,400)	(17,400)
Borrowings on line of credit	559,400	695,000	814,950
Repayments on line of credit	(682,400)	(656,000)	(814,950)
Issuance of common stock – net	141,707	–	–
Other	(783)	–	–
Net cash used in financing activities	(147,420)	(119,758)	(150,407)
Increase (decrease) in cash and cash equivalents	1,596	(21,588)	11,489
Cash and cash equivalents:			
Beginning of period	113,793	135,381	123,892
End of period	$ 115,389	$113,793	$ 135,381
SUPPLEMENTARY CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest – net	$ 63,082	$ 58,785	$ 59,650
Income taxes – net	$ 270	$ 362	$ 737
Noncash activities:			
Assets contributed to unconsolidated subsidiaries	$ 291,513		
Liabilities contributed to unconsolidated subsidiaries	$ 221,755		
Assets received related to the PCMC merger	$ 13,726		
Liabilities received related to the PCMC merger	$ 12,134		
Purchased accounting related basis step-up of assets	$ 3,939		
Exchanges of timber and timberlands	$ 3,294		
Business acquisition		$177,060	
Issuance of unsecured debt for business acquisition		$177,060	

See accompanying Notes to Consolidated/Combined Financial Statements.

CONSOLIDATED/ COMBINED STATEMENT OF CASH FLOW

NOTES TO CONSOLIDATED/ COMBINED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

Basis of Presentation. On July 1, 1999, Plum Creek Timber Company, L.P. converted from a master limited partnership to a corporation. Plum Creek Timber Company, Inc., the new Delaware corporation and successor registrant, will elect to be treated for Federal income tax purposes as a real estate investment trust or REIT. As part of the REIT conversion, Plum Creek Timber Company, L.P. ceased to exist.

Prior to July 1, 1999, Plum Creek Timber Company, L.P., Plum Creek Manufacturing, L.P., and Plum Creek Marketing, Inc., owned, managed and operated approximately 3.2 million acres of timberland and eleven wood products conversion facilities in the Northwest, Southern and Northeastern United States. Plum Creek Timber Company, L.P. owned 98% of Plum Creek Manufacturing, L.P. and 96% of Plum Creek Marketing, Inc. Plum Creek Management Company, L.P., the general partner, managed all of the businesses and owned the remaining general partner interest of the manufacturing and 4% of marketing. As a part of the reorganization, Plum Creek Management Company, L.P. was merged into the corporation.

The REIT conversion was accounted for as a reorganization of affiliated entities. Reorganization costs have been expensed in the period incurred and are reflected in a separate line item in the financial statements. In order to qualify as a REIT, substantially all of the assets and liabilities of the manufacturing operations, harvesting operations and some higher and better use lands (for use other than for forest management purposes) were transferred to several unconsolidated subsidiaries at their historical costs. The corporation's balance sheet does not separately reflect the assets and liabilities associated with the manufacturing and harvesting operations and some higher and better use lands. Instead, the book value of these assets, net of related liabilities, is reflected in the corporation's investment in nonvoting common stock and preferred stock of the unconsolidated subsidiaries.

Following the REIT conversion, the corporation owns and manages approximately 3.2 million acres of timberlands in the Northwest, Southern and Northeastern United States, and the unconsolidated subsidiaries own and operate eleven wood product conversion facilities in the Northwest and Southern United States, as well as approximately 21,500 acres of higher and better use lands.

As a part of the REIT conversion, the partnership's outstanding units were converted on a one-for-one basis into 46,323,300 shares of common stock of the corporation. Additionally, the equity interests of the partnership's general partner were converted into 16,498,709 shares of common stock and 634,566 shares of special voting stock. The special voting stock is convertible into common stock at the option of the holder on a one-for-one basis and is entitled to receive the same dividends as the common stock. The special voting stock is considered outstanding and is used in computing basic and diluted earnings per share.

The corporation is entitled to approximately 99% of the economic value of the unconsolidated subsidiaries through a combination of preferred stock and nonvoting common stock. The remaining 1% of the economic value and 100% of the voting control of the manufacturing and harvesting subsidiaries are owned by four individuals who are also officers of the corporation. See Note 5 of the Notes to Financial Statements for summarized combined financial information of the unconsolidated subsidiaries.

The financial statements of the corporation reflect the deconsolidation of the manufacturing and harvesting operations along with some higher and better use land sales which occurred on July 1, 1999, as part of the REIT conversion. The statements of income and cash flows for the year ended December 31, 1999, were prepared based on the partnership's basis of accounting for the first two quarters of 1999 and the corporation's basis of accounting for the third and fourth quarters of 1999.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The consolidated financial statements of the corporation include the accounts of Plum Creek Timber Company, Inc. and its subsidiaries, including its operating partnership. Prior to the REIT conversion, the combined financial statements included all the accounts of the partnership, Plum Creek Manufacturing, L.P., and Plum Creek Marketing, Inc. All significant intercompany transactions have been eliminated in consolidation/combination. All transactions are denominated in United States dollars.

Earnings Per Share. The corporation computes its earnings per share by dividing its net income by the weighted average number of shares outstanding. For the year ended 1999, earnings per share is computed by dividing net income allocable to common stockholders by the weighted average number of shares outstanding, which include the 17,133,275 shares issued to the partnership's general partner in the REIT conversion and the 5,750,000 million shares issued in connection with the October 28, 1999, equity offering. The partnership historically computed net income per unit by dividing the partnership's net income available to unitholders by the weighted-average number of limited partner units outstanding. Net income available to unitholders was equal to the partnership's net income less the income allocated to the general partner, which consisted of an incentive distribution allocation and 2% of earnings. Due to the incentive distribution, for any given level of net income, earnings per share reported by the corporation may be different than the per unit amounts historically reported by the partnership. The weighted average number of shares (units) outstanding was 55,819,390 for the year ended December 31, 1999, and 46,323,300 for the years ended December 31, 1998 and 1997.

Revenue Recognition. The corporation owns and manages timberlands and sells timber pursuant to timber cutting contracts. In order to meet REIT income qualification tests under the Internal Revenue Code, the corporation has entered into timber cutting contracts with the unconsolidated subsidiaries, and, unlike the partnership, the corporation does not recognize revenue from the harvesting and delivery of logs. Therefore, the corporation's revenues consist primarily of proceeds from timber cutting contracts, some land sales and other miscellaneous real estate related income. The corporation's revenues and associated expenses related to the timber cutting contracts are deferred until the timber (in the form of either whole logs, lumber, plywood or other wood products) is sold outside the unconsolidated subsidiaries. The corporation's sales of timberlands which have been identified as higher and better use lands are included in revenues when the sale is consummated. In addition, the consolidated financial statements of the corporation do not include the revenues associated with the manufacturing operations, primarily lumber, plywood and medium density fiberboard sales, and some higher and better use land sales.

Revenues prior to the REIT conversion came from the sale of logs, wood products and by-products, primarily wood chips, and were generally recorded as revenue at the time of shipment. Sales of timberlands prior to the REIT conversion identified as higher and better use lands were included in the revenues of the partnership when the sale was consummated.

Costs and Expenses. After the REIT conversion, the corporation's cost of goods sold and selling, general and administrative expenses do not include the expenses associated with the manufacturing operations, harvesting activities and some higher and better use land sales.

Interest Expense. The corporation's interest expense does not include the interest expense associated with the approximately $170.1 million of debt transferred to the unconsolidated subsidiaries as a result of the REIT conversion.

Equity in Earnings of Unconsolidated Subsidiaries and Preferred Stock Dividends. Subsequent to the REIT conversion, approximately 99% of the net earnings or loss from the manufacturing operations, harvesting activities and some higher and better use land sales are reflected in the corporation's net income through a single line item titled "Equity in Earnings (Loss) of Unconsolidated Subsidiaries and Preferred Stock Dividends." See Note 5 of the Notes to Financial Statements.

Cash and Cash Equivalents. All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Substantially all of the cash and cash equivalents are deposited with one financial institution.

Accounts Receivable. Accounts receivable at December 31, 1998, are presented net of an allowance of $1.3 million for doubtful accounts. In connection with the REIT conversion, substantially all of the partnership's accounts receivable and related allowance for doubtful accounts were transferred to the unconsolidated subsidiaries.

Grantor Trusts. The former general partner of the partnership had established a grantor trust for deferred compensation. In connection with the REIT conversion, the assets and liabilities of the grantor trust were recorded on the books of the corporation. Assets which include money market and mutual fund investments are classified as "trading securities" and are carried at market value. Realized gains and losses and changes in unrealized gains and losses and a corresponding amount of compensation expense are recorded in the consolidated/combined statement of income.

Inventories. Prior to the REIT conversion, logs, work-in-process and finished goods inventories of the partnership were stated at the lower of average cost or market on the last-in, first-out method. Cost for manufactured inventories included raw materials, labor, supplies, energy, depreciation and production overhead. Cost of log inventories included timber depletion, stumpage, associated logging and harvesting costs, road costs and production overhead. The average cost method was used to value the supplies inventories. Following the REIT conversion, the unconsolidated subsidiaries have maintained the same method of accounting for inventories.

Timber and Timberlands. In the fourth quarter of 1999, the corporation changed its accounting policy to capitalize certain timber reforestation costs and other costs associated with the planting and growing of timber that were previously expensed in order to achieve a better matching of these costs with the revenues realized from the eventual sale of timber. The corporation believes that this change is more consistent with industry practice and is preferable under the circumstances in which the corporation now manages its timberlands. Costs related to pre-merchantable and merchantable timber that are now capitalized include site preparation, planting, fertilization, herbicide application and pre-commercial thinning. These costs are charged against revenue at the time the timber is sold.

The new capitalization policy was applied retroactively as of January 1, 1999, and resulted in a restatement of first quarter 1999 results for the cumulative effect of the accounting change from June 1989 through December 31, 1998. This restatement increased 1999 net income by $12.2 million or $0.22 per share. Implementation of the new accounting method increased 1999's operating income by approximately $2.9 million or $0.05 per share. Pro forma amounts, assuming the change in accounting method was applied retroactively back to 1989, are shown on the face of the consolidated/combined statement of income.

Timber and timberlands, including logging roads, are stated at cost less accumulated depletion for timber previously sold and accumulated road amortization. The corporation capitalizes timber and timberland purchases, and reforestation costs and other costs associated with the planting and growing of timber, such as site preparation, growing or purchase of seedlings, planting, fertilization, herbicide application and the thinning of tree stands to improve growth. Timber carrying costs, such as real estate taxes, insect control, wildlife control and forest management personnel salaries and fringe benefits, are expensed as incurred.

Costs attributable to timber harvested, or depletion, are charged against income as trees are cut. Depletion rates for our Northwest timberlands are determined annually based on the relationship of remaining capitalized costs to estimated recoverable volume. Depletion rates for our Southern and Northeastern timberlands are determined annually based on the relationship between net carrying value of the timber plus capitalized costs expected to be incurred over the growth cycle and total timber volume estimated to be available over the growth cycle. Timber inventory is estimated using statistical information and data obtained from physical measurement, site maps, photo-types and other information gathering techniques. The cost of logging roads is amortized over their estimated useful life on a straight-line basis.

Property, Plant and Equipment. Property, plant and equipment is stated at cost. Improvements and replacements are capitalized. Depreciation is calculated on a straight-line basis. Buildings and improvements are depreciated over 20 to 31-1/2 years and equipment is depreciated over 3 to 15 years. Assets under capitalized leases and leasehold improvements are depreciated over the lease term. Maintenance and repairs necessary to maintain properties in operating condition are expensed as incurred. The cost and related accumulated depreciation of property sold or retired are removed from the accounts and any gain or loss is recorded. Manufacturing machinery and equipment prior to the REIT conversion was depreciated on a unit-of-production basis, which approximated a straight-line basis. The unconsolidated subsidiaries have maintained a similar policy.

Stock-Based Compensation Plans. Stock-based compensation plans are accounted for under the provisions of Accounting Principles Board Opinion No. 25. The disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" have been adopted. See Note 11 of the Notes to Financial Statements.

Income Taxes. The Corporation will elect to be taxed as a REIT under sections 856–860 of the United States Internal Revenue Code. Under these sections of the Internal Revenue Code, the corporation is permitted to deduct dividends paid to stockholders in computing its taxable income. The corporation made distributions in excess of its taxable income and, therefore, no federal income tax provision has been reflected in the accompanying financial statements. State income taxes are not significant.

In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," a one-time tax benefit of approximately $14.0 million was recorded by the corporation for the net temporary differences associated with the assets and liabilities transferred to the unconsolidated subsidiaries in the REIT conversion.

Prior to the REIT conversion, the partnership's taxable subsidiary recorded a tax provision of $985,000 for the six months ended June 30, 1999, $517,000 for 1998 and $80,000 for 1997. The partnership was not subject to federal income tax, and its income or loss was included in the tax returns of individual unitholders. The partnership filed composite returns in the states in which it did business, paying taxes on behalf of nonresident unitholders. State taxes paid on behalf of nonresident unitholders were included in other expense.

Segment Reporting. The corporation has the same five reportable business segments as did the partnership. The segment disclosure has been prepared on a basis consistent with that of the partnership. See Note 14 of the Notes to Financial Statements.

New Accounting Pronouncements. In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133—an amendment of FASB Statement 133." SFAS 133 establishes a new model for accounting for derivatives and hedging activities. The implementation is required for financial statements issued for periods beginning after June 15, 2000; earlier application is permitted. Adoption of this standard is not expected to have a material impact on the corporation's financial position, results of operations or cash flows.

NOTE 2. ACQUISITION

On November 12, 1998, the partnership acquired 905,000 acres of timberlands in central Maine from S.D. Warren Company for a purchase price of $180.0 million, plus $300,000 for working capital. As part of the acquisition, we entered into a long-term agreement to supply fiber to S.D. Warren Company's paper facility in Skowhegan, Maine, at prevailing market prices. The acquisition was accounted for as a purchase and the operations of the business acquired have been included in the consolidated/combined financial statements from the date of acquisition. The total purchase price of $181.1 million, including $700,000 of acquisition costs and $105,000 of assumed liabilities, was allocated as follows (in thousands):

Timber and Timberlands	$ 177,618
Property, Plant and Equipment	2,940
Other Assets	590
Total Assets Acquired	$ 181,148
Total Liabilities Assumed	$ 105

The acquisition was financed with approximately $4 million cash and the balance with unsecured promissory notes that were issued to the seller (Senior Notes due 2011, see Note 6 of the Notes to Financial Statements). The Senior Notes due 2011 have an average maturity of 10 years with effective interest rates ranging from 7.16% to 7.32%.

The unaudited combined results of operations of the partnership on a pro forma basis, as though the acquisition in Maine and the issuance of the Senior Notes due 2011 had occurred as of the beginning of the years ended December 31, 1998 and 1997, were as follows (in thousands, except per unit):

	1998	1997
Revenues	$ 739,000	$ 774,032
Net Income	73,540	110,987
Net Income Allocable to Unitholders	39,865	79,083
Net Income per Unit	$ 0.86	$ 1.71

The pro forma financial information is not necessarily indicative of results of operations that would have occurred had the acquisition in Maine occurred as of those dates, nor of results which may occur in the future.

NOTE 3. INVENTORIES

All inventories were contributed to the unconsolidated subsidiaries as part of the REIT conversion. After July 1, 1999, the corporation does not have any raw material or manufacturing related inventories. Inventories at December 31, 1998, accounted for using the last-in, first-out cost method, consisted of the following (in thousands):

Raw materials (logs)	$ 25,129
Work-in-process	6,554
Finished goods	15,831
Export logs	53
	47,567
Supplies	8,396
Total	$ 55,963

Excluding supplies, which are valued at average cost, the cost of inventories valued at the lower of average cost or market (which approximates current cost) at December 31, 1998 was $46.9 million.

NOTE 4. TIMBER AND TIMBERLANDS AND PROPERTY, PLANT AND EQUIPMENT

Timber and timberlands consisted of the following at December 31 (in thousands):

	1999	1998
Timber and logging roads – net	$ 887,417	$ 907,830
Timberlands	123,107	122,654
Timber and Timberlands – net	$ 1,010,524	$ 1,030,484

Substantially all of the property, plant and equipment was contributed to the unconsolidated subsidiaries as part of the REIT conversion. Property, plant and equipment consisted of the following at December 31 (in thousands):

	1999	1998
Land, buildings and improvements	$ 1,184	$ 66,714
Machinery and equipment	699	275,149
	1,883	341,863
Accumulated depreciation	(680)	(155,684)
Property, Plant and Equipment – net	$ 1,203	$ 186,179

NOTE 5. INVESTMENT IN EQUITY OF UNCONSOLIDATED SUBSIDIARIES AND PREFERRED STOCK

In connection with the REIT conversion, substantially all of the partnership's assets and associated liabilities related to the manufacturing operations and harvesting activities and some higher and better use lands were transferred to several unconsolidated corporate taxable subsidiaries in exchange for preferred stock and nonvoting common stock. The corporation is entitled to approximately 99% of the economic value of the unconsolidated subsidiaries through its preferred and nonvoting common stock ownership. The corporation accounts for its preferred stock investment in the unconsolidated subsidiaries using the cost method of accounting and uses the equity method of accounting for its nonvoting common stock investment. The equity method of accounting is used for

the nonvoting common stock investment because the corporation is entitled to substantially all of the economic benefits of the unconsolidated subsidiaries.

The $34.9 million difference between the corporation's carrying amount in its nonvoting common stock of the unconsolidated subsidiaries and the corporation's share of the underlying equity in the net assets of the unconsolidated subsidiaries at July 1, 1999, has been assigned to a deferred tax asset. This difference arose as a result of some timber and timberlands being sold to the unconsolidated subsidiaries just prior to the REIT conversion. For financial reporting purposes, this sale was recorded as a capital contribution. The difference is being amortized as the related timber is harvested or the timberlands are sold. The corporation's equity earnings and preferred stock dividends from the unconsolidated subsidiaries for the six months ended December 31, 1999, is comprised of the following (in thousands):

Share of Equity Earnings	$ 4,874
Preferred Stock Dividends	7,838
Amortization of difference between carrying amount and share of underlying equity	4,810
Total Equity Earnings and Preferred Stock Dividends	$ 17,522

Summarized combined financial data for the unconsolidated subsidiaries' operations as of December 31, 1999, are as follows (in thousands):

Current Assets	$ 146,210
Noncurrent Assets	222,259
Current Liabilities	76,458
Noncurrent Liabilities	157,890

Current and noncurrent liabilities include $170.1 million of indebtedness. This indebtedness consists of the 11.125% First Mortgage Notes due 2007 (collateralized by the manufacturing facilities), and $68.2 million face value of the 11.125% Senior Notes due 2007. The First Mortgage Notes and the Senior Notes are guaranteed by the corporation's operating partnership. Annual principal payments in the aggregate for the above notes are approximately $21.3 million for each of the next eight years.

	Six months ended December 31, 1999
Revenues	$ 384,667
Gross Profit	45,490
Operating Income	29,315
Interest Expense	9,498
Income Tax Expense	6,387
Net Income	12,915

Gross profit includes depreciation and amortization expense of $15,271. The Income Tax Expense includes a benefit of $1,334 related to interest expense that is allowed for tax purposes but eliminated for financial reporting purposes. The tax deduction for interest expense is from an installment note exchanged for certain timberlands as a part of the REIT conversion. The related interest expense of $3,335 and the installment note are eliminated for accounting purposes. For the six months ended December 31, 1999, the unconsolidated subsidiaries had capital expenditures of $4.4 million.

In accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock," the revenues and associated expenses of the corporation related to the sale of timber to the unconsolidated subsidiaries is deferred until the logs or finished goods are sold outside the group of unconsolidated subsidiaries. Therefore, all sales by the corporation to the unconsolidated subsidiaries will also be included in the revenue of the unconsolidated subsidiaries in the period in which the timber (in the form of either whole logs, lumber, plywood or other wood products) is sold outside the unconsolidated subsidiaries. Sales and investments between the unconsolidated subsidiaries are eliminated in preparing the summarized combined financial information of the unconsolidated subsidiaries. Revenues reported by the corporation that were also included in the revenues of the unconsolidated subsidiaries amounted to $86.4 million for the six-month period ended December 31, 1999.

NOTE 6. BORROWINGS

Long-term debt and the line of credit consisted of the following at December 31 (in thousands):

	1999	1998
Senior Notes due 2007	$ 45,480	$ 122,000
First Mortgage Notes due 2007		112,000
Senior Notes due 2009	150,000	150,000
Senior Notes due 2011	176,597	177,008
Senior Notes due 2016	200,000	200,000
Line of Credit	77,000	200,000
Total Long-Term Debt	649,077	961,008
Less: Current Portion	(6,127)	(18,400)
Long-Term Portion	$ 642,950	$ 942,608

NOTES TO CONSOLIDATED/ COMBINED FINANCIAL STATEMENTS

On July 1, 1999, the unconsolidated subsidiaries assumed $170.1 million of the indebtedness of the corporation in connection with the REIT conversion. The $170.1 million consists of the First Mortgage Notes, which are collateralized by some of the manufacturing facilities, and $68.2 million face value of the Senior Notes due 2007.

On November 12, 1998, the partnership issued $171.4 million of senior notes to S.D. Warren Company to finance the acquisition in Maine. The partnership recorded a premium on the Senior Notes due 2011 of $5.6 million to reflect the market value of the notes at the date of issuance. The premium is being amortized using the effective interest rate method over the terms of the notes. The Senior Notes due 2011 mature in 2007 through 2011 and bear interest at rates ranging from 7.62% to 7.83%, payable quarterly. The effective interest rates on the Senior Notes due 2011 range from 7.16% to 7.32%.

The corporation has an unsecured revolving line of credit that matures on December 13, 2001 and bears interest at a floating rate (8.3% as of December 31, 1999 and 7.0% as of December 31, 1998). The weighted average interest rate for borrowings under the line of credit was 5.8% in 1999 and 5.9% in 1998. Borrowings on the line of credit fluctuate daily based on cash needs. Subject to customary covenants, the line of credit allows for borrowings from time to time up to $225 million, including up to $20 million of standby letters of credit. As of December 31, 1999, $148 million remained available for borrowing under the line of credit and there were no outstanding standby letters of credit. On January 4, 2000, $77 million of the borrowings under the line of credit were repaid.

The Senior Notes due 2007 and the First Mortgage Notes due 2007 bear interest at 11.125%, payable semiannually. The Senior Notes due 2009 bear interest at 8.73%, payable semiannually. The Senior Notes due 2016 mature in 2006 through 2016 and bear interest at rates ranging from 7.74% through 8.05%, payable semiannually. The Senior Notes, excluding the Senior Notes due 2011, and the First Mortgage Notes are redeemable prior to maturity subject to a premium on redemption, which is based upon interest rates of United States Treasury securities having similar average maturities as these notes. The premium that would have been due upon early retirement approximated $39 million at December 31, 1999, and $146 million at December 31, 1998. The premium that would have been due upon early retirement of the Senior and the First Mortgage Notes assumed by the unconsolidated subsidiaries approximated $27 million at December 31, 1999. The four series of senior notes are unsecured.

The aggregate maturities on the Senior Notes and the line of credit are as follows (in thousands):

	Note Agreements	Line Of Credit
2000	$ 6,127	
2001	6,158	$ 77,000
2002	6,193	
2003	6,229	
2004	6,268	
Thereafter	541,102	

All principal and interest payments due under the note agreements are nonrecourse to the former general partner. The note agreements and the line of credit contain certain restrictive covenants, including limitations

on harvest levels, sales of assets, cash distributions and the incurrence of indebtedness. In addition, the line of credit requires the maintenance of a required interest coverage ratio. The corporation was in compliance with such covenants at December 31, 1999 and 1998.

NOTE 7. FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term maturities of these instruments. The estimated fair value of the corporation's debt, based on current interest rates for similar obligations with like maturities, was approximately $622 million at December 31, 1999 and $1.02 billion at December 31, 1998. The carrying amount was $649 million at December 31, 1999, and $961 million as of December 31, 1998. In connection with the REIT conversion, the unconsolidated subsidiaries assumed debt with a carrying value of $170.1 million. A net unrealized holding loss of $35,000 was recorded in the consolidated/combined statement of income relating to the mutual fund investments held in a grantor trust.

NOTE 8. CAPITAL

In connection with the REIT conversion on July 1, 1999, the partnership converted to a corporate entity. The changes in partners' capital prior to the REIT conversion were as follows (in thousands):

	Limited Partners	General Partner	Total
January 1, 1997	$ 490,105	$ 1,543	$ 491,648
Net Income	79,778	31,918	111,696
Cash Distributions	(100,059)	(32,948)	(133,007)
December 31, 1997	469,824	513	470,337
Net Income	41,723	33,713	75,436
Cash Distributions	(104,690)	(35,668)	(140,358)
December 31, 1998	406,857	(1,442)	405,415
Net Income	23,235	17,162	40,397
Cash Distributions	(52,808)	(18,108)	(70,916)
Other	–	60	60
June 30, 1999	$ 377,284	$ (2,328)	$ 374,956

The total number of units outstanding at June 30, 1999, and December 31, 1998, was 46,323,300.

In accordance with the partnership agreement, the general partner was authorized to make quarterly cash distributions. The general partner declared to be paid to the unitholders $1.14 per unit during the six-month period ended June 30, 1999, and $2.28 per unit for 1998 and $2.20 per unit for 1997. For quarterly cash distributions exceeding $0.21-2/3 per unit, the general partner was provided with an incentive distribution. The incentive distribution no longer exists after the REIT conversion. See Note 1 of the Notes to Financial Statements.

A reconciliation of the ending partners' capital of the partnership at June 30, 1999, and the opening stockholders' equity of the corporation at July 1, 1999, is as follows (in thousands):

Partners' Capital at June 30, 1999	$ 374,956
Purchase of minority interest	4,464
Merger of Plum Creek Management Company, L.P.	1,683
Unit-Award Plans	1,046
Stockholders' Equity at July 1, 1999	$ 382,149

The changes in stockholders' equity were as follows (in thousands):

	Common Stock	Stock Amount	Special Voting Stock	Stock Amount	Paid-in Capital	Deferred Incentive Plans	Retained Earnings	Total
Balances at July 1, 1999	62,822	$ 628	635	$ 6	$ 380,595	$ 920		$ 382,149
Net income for the six months ended December 31, 1999, including cumulative effect of accounting change							$ 85,204	85,204
Dividend paid							(75,618)	(75,618)
Issuance of common stock	5,750	58			141,649			141,707
Purchase of common stock						(783)		(783)
Deferred incentive plans liability						388		388
Balances at December 31, 1999	68,572	$ 686	635	$ 6	$ 522,244	$ 525	$ 9,586	$ 533,047

NOTES TO CONSOLIDATED/ COMBINED FINANCIAL STATEMENTS

The corporation has authorized 525,634,567 shares of capital stock, consisting of:

- 300,000,000 shares of common stock, par value $.01 per share;
- 634,566 shares of special voting stock, par value $.01 per share;
- 150,000,001 shares of excess stock, par value $.01 per share; and
- 75,000,000 shares of preferred stock, par value $.01 per share.

In connection with the REIT conversion, 46,323,300 limited partnership units were converted into common stock of the corporation on a one-for-one basis. Also in connection with the REIT conversion, the general partnership interest was converted into 16,498,709 shares of common stock and 634,566 shares of special voting stock. The special voting stock is convertible into common stock at the option of the holder on a one-for-one basis and has the same dividend and liquidation rights as the common stock. The special voting stock entitles the holders to vote as a separate class on matters submitted for stockholder approval such as mergers, dissolution and amendments to the certificate of incorporation.

Also in connection with the REIT conversion, the corporation acquired the general partner's 2% interest in Plum Creek Manufacturing, L.P., and 4% interest in Plum Creek Marketing, Inc., and Plum Creek Management Company, L.P. merged with the corporation. See Note 9 of the Notes to Financial Statements for a description of the above transactions. Furthermore, equity was adjusted by $1,046 for the difference between the total expense recognized in connection with the partnership's 1994 long-term unit-award incentive plans and the cost of purchasing units to fund these plans. See Note 11 of the Notes to Financial Statements for a summary of the corporation's long-term incentive plans.

At December 31, 1999, there were 69,206,575 shares outstanding. For the six-month period ending December 31, 1999 the corporation made distributions of $1.14 per share, of which $0.59 was a 20% long-term capital gain dividend and $0.55 represented a non-taxable return of capital. Total distributions declared by the corporation and the partnership for the year ended December 31, 1999, were $2.28 per share/unit. On a tax basis we have distributed all of our ordinary and capital gain income.

In November of 1999 the corporation issued 5,750,000 shares of common stock for proceeds of $141.7 million, net of issuance costs of $7.8 million. The proceeds were used to repay borrowings on our revolving line of credit.

At December 31, 1999, there were 387,745 shares of common stock held in a trust to fund deferred incentive plan awards. At December 31, 1999, these shares were recorded at $10.2 million and the related liability was $10.7 million. The common stock and liability are shown as a net amount in the equity section of the consolidated/combined balance sheet. See Notes 11 and 12 of the Notes to Financial Statements.

NOTE 9. NON-CASH TRANSACTIONS

During 1999 the corporation entered into the following non-cash transactions:

1_ *Unconsolidated Subsidiaries:* In connection with the REIT conversion, substantially all of the partnership's assets and associated liabilities related to manufacturing operations, harvesting activities and some higher and better use lands were transferred to unconsolidated corporate subsidiaries. Excluding cash, the book value of assets transferred to the unconsolidated subsidiaries was $291.5 million. The book value of liabilities transferred to the unconsolidated subsidiaries was $221.8 million.
2_ *Merger:* In connection with the REIT conversion, Plum Creek Management Company L.P., the general partner of the partnership, was merged with the corporation. As a result of the merger, the corporation received assets of $13.8 million and liabilities of $12.1 million. The assets and liabilities are primarily associated with deferred compensation and long-term incentive compensation awards. The assets are primarily held in a grantor trust and consist of mutual and money market funds. The investments are recorded at fair value. Additionally, included in a grantor trust are 387,745 shares of common stock of the corporation to fund several incentive compensation plans. The shares and a corresponding amount of deferred incentive compensation are recorded at cost in Stockholders' Equity.
3_ *Purchase of Minority Interest:* In connection with the REIT conversion, the corporation acquired the general partner's 2% interest in Plum Creek Manufacturing, L.P., and 4% interest in Plum Creek Marketing, Inc., both subsidiaries of the former partnership. The corporation issued common stock valued at $4.5 million in exchange for these interests. In accordance with APB No. 16, "Business Combinations," these acquisitions were accounted for as a purchase, and as a result, the corporation's investment in unconsolidated subsidiaries was increased by $3.9 million.
4_ *Land Exchanges:* In our Cascade Region we received 11,586 acres of timberlands and $4.3 million of cash in exchange for 31,713 acres of timberlands. Except for the cash proceeds of $4.3 million, which resulted in a non-operating gain of approximately $3.6 million, the exchange was accounted for as a nonmonetary transaction. In our Northeastern Region we received some timberlands in exchange for higher and better use lands with an estimated value of $3.3 million. The gain associated with this exchange was included in operating income.

NOTE 10. EMPLOYEE PENSION AND RETIREMENT PLANS

Pension Plan. The corporation provides multi-employer defined benefit pension plans that cover substantially all employees of the corporation and the unconsolidated subsidiaries. The following tables provide a reconciliation of benefit obligations, plan assets, and funded status of the plans for the years ended December 31 (in thousands):

	1999	1998
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 66,723	$ 56,286
Service cost	3,913	3,668
Interest cost	4,314	4,046
Actuarial (gain) loss	(10,621)	5,640
Benefits paid	(3,808)	(2,917)
Benefit obligation at end of year	$ 60,521	$ 66,723
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ 64,059	$ 57,635
Actual return on plan assets	12,484	9,341
Benefits paid	(3,808)	(2,917)
Employer contributions	–	–
Fair value of plan assets at end of year	$ 72,735	$ 64,059
Funded status	$ 12,214	$ (2,664)
Unrecognized net actuarial (gain) loss	(16,365)	1,287
Unrecognized prior service cost	513	668
Prepaid (accrued) benefit cost	$ (3,638)	$ (709)

The components of pension cost were as follows for the years ended December 31 (in thousands):

	1999	1998	1997
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	$ 3,913	$ 3,668	$ 2,941
Interest cost	4,314	4,046	3,522
Expected return on plan assets	(5,364)	(4,342)	(3,817)
Amortization of prior service cost	106	108	108
Recognized actuarial (gain) loss	(41)	208	169
Net periodic benefit cost	$ 2,928	$ 3,688	$ 2,923

NOTES TO CONSOLIDATED/ COMBINED FINANCIAL STATEMENTS

The following assumptions were used in accounting for the pension plan as of December 31:

	1999	1998	1997
Weighted average discount rate	8.0%	6.75%	7.0%
Rate of increase in compensation levels	5.0%	5.0%	5.0%
Expected long-term rate of return on plan assets	9.0%	8.5%	8.5%

The corporation and the partnership recorded aggregate pension expense of $2.2 million for the year ended December 31, 1999. The unconsolidated subsidiaries recorded pension expense of approximately $775,000 for the six months ending December 31, 1999.

Thrift and Profit Sharing Plan. The corporation and unconsolidated subsidiaries sponsor an employee thrift and profit sharing plan under Section 401(k) of the Internal Revenue Code. This plan covers substantially all full-time employees. The corporation and unconsolidated subsidiaries match employee contributions of up to 6% of compensation at rates ranging from 35 to 100%, depending upon financial performance. The partnership sponsored the plan prior to the REIT conversion.

Amounts charged to expense relating to the Thrift and Profit Sharing Plan by the corporation and the unconsolidated subsidiaries was $4.3 million in 1999. The partnership charged $2.9 million to expense in 1998 and $3.9 million during 1997. The employer match was 100% in 1999. The partnership matched 70% in 1998 and 100% in 1997.

Other Benefit Plans. Certain executives and key employees of the corporation or general partner participate in incentive benefit plans which provide for the granting of shares/units and/or cash bonuses upon meeting performance objectives. See Note 11 of the Notes to Financial Statements.

NOTE 11. STOCK/UNIT-BASED COMPENSATION PLANS

As of October 1, 1993, and January 1, 1994, the general partner of the partnership had established a Long-Term Incentive Plan and a Key Employee Long-Term Incentive Plan that authorized the granting of up to 2,500,000 unit appreciation rights to certain executives and key employees of the general partner. When any of five unit value targets established by the 1993 and 1994 long-term incentive plans were met through a combination of unit market price appreciation plus partnership cash distributions, a percentage of the unit appreciation rights was triggered and units were credited to the participants' accounts. In general, each successive unit value target was met when unit market appreciation plus cash distributions equaled approximately 15% compounded annual growth. Units in participants' accounts earned additional units equal to the amount of any subsequent partnership distribution. The performance period under the 1993 and 1994 long-term incentive plans ended December 31, 1998, at which time all earned units vested. Costs incurred by the general partner in administering and funding the unit value targets were borne by the partnership.

On April 17, 1998, the fifth and final target under the 1993 and 1994 long-term incentive plans was met. Total compensation expense for the 1993 and 1994 long-term incentive plans was $27.3 million, of which $13.3 million was recognized in 1998 and $7.8 million in 1997. Approximately 70% of the units were distributed during the first quarter of 1999, with the remainder to be distributed subsequent to the participant's separation of employment.

Effective April 18, 1998, the general partner established a new Long-Term Incentive Plan and a new Key Employee Long-Term Incentive Plan with terms similar to the previously adopted 1993 and 1994 long-term incentive plans. The 1998 plans authorize granting up to 1,175,000 unit

appreciation rights to certain executives and key employees. The performance period during which unit appreciation rights may be earned ends December 31, 2003. The vesting date for unit appreciation rights is generally December 31, 2003. In connection with the REIT conversion, these unit-based compensation plans were converted to share-based compensation plans, payable in shares of stock of the corporation.

Under the plans established in 1998 1,016,000 unit appreciation rights, net of forfeitures, have been granted to participants, which could result in 1,016,000 shares being earned if all targets are met. No unit value targets have been achieved. Accordingly, no compensation cost has been recognized.

The corporation applies APB 25 in accounting for the 1993, 1994 and 1998 plans. In general, under APB 25 no compensation expense is recognized until a unit value target is met. Effective January 1, 1996, SFAS 123 encouraged adoption of fair value-based method for valuing the cost of stock-based compensation. Under SFAS 123, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the plan's performance period. However, SFAS 123 allowed companies to continue to apply the principles of APB 25 in recognizing expense and disclose pro forma net earnings and earnings per share in accordance with SFAS 123. Furthermore, since most of the grants under the 1993 and 1994 plans were granted prior to the effective date of SFAS 123, pro forma disclosure is only required with respect to grants made after December 31, 1994. Had compensation expense for the stock/unit-based compensation plans been determined consistent with SFAS 123, net income and net income per share/unit would have been as follows (in thousands, except per share/unit):

	1999	1998	1997
Net Income:			
As reported	$ 125,601	$ 75,436	$ 111,696
Pro forma	$ 123,699	75,407	111,992
Net Income per Share/Unit:			
As reported	$ 1.94	$ 0.90	$ 1.72
Pro forma	$ 1.91	0.90	1.73

The corporation used the Monte Carlo path dependent model to determine the fair value of unit appreciation right grants. The following tables summarize the grants and assumptions applied in determining pro forma compensation expense under the 1993, 1994 and 1998 plans for the years ended December 31:

	1998	1997
1993 AND 1994 PLANS		
Unit appreciation rights granted	16,333	22,533
Weighted-average fair value of unit appreciation rights granted	$ 13.98	$ 4.64
Risk-free interest rate	5.25%	6.28%
Expected dividend yield	6.20%	7.40%
Expected life of unit appreciation rights granted	0.83 years	1.67 years
Expected unit price volatility	24.3%	18.2%

	1999	1998
1998 PLANS		
Unit appreciation rights granted	51,500	1,163,500
Weighted-average fair value of unit appreciation rights granted	$ 11.76	$ 12.25
Risk-free interest rate	5.18%	5.70%
Expected dividend yield	8.43%	7.13%
Expected life of unit appreciation rights granted	4.67 years	5.67 years
Expected unit price volatility	24.1%	24.7%

Under the 1993 and 1994 plans, if all five targets were met, one unit appreciation right was converted into approximately one-half unit. Under the 1998 plans, if all five targets are met, one unit appreciation right is converted into one share.

The effect of applying SFAS 123 for the pro forma disclosures may not be representative of the effects expected on reported net income and net income per share in future years, since unit appreciation right valuations are based on highly subjective assumptions about the future, including share price volatility, and the disclosures do not reflect compensation expense for grants prior to 1995.

Effective January 1, 1994, the former general partner of the partnership established a management incentive plan for certain executives of the general partner. As a part of the REIT conversion, this plan is being maintained by the corporation. An annual bonus of up to 100% of the respective executive's base salary may be awarded if certain performance objectives established by the board of directors are met by the corporation and by the executive. One-half of the bonus is paid annually in cash and the remaining half is converted into stock/units at fair market value and will be distributed at the end of three years. The board of directors, however, amended the plan to provide that awards earned with respect to the 1999 plan year are to be paid 100% in cash during the first quarter of 2000. Shares of stock/units in executives' accounts earn additional shares of stock based on any subsequent cash distributions. Costs incurred in administering and funding the plan were borne by the general partner through June 30, 1999. The liability for the shares to be paid from the management incentive plan is recorded in the equity section of the consolidated/combined balance sheet as deferred incentive compensation.

NOTE 12. RELATED-PARTY TRANSACTIONS

In order to meet REIT income qualification tests under the Internal Revenue Code, the corporation has entered into timber cutting contracts with the unconsolidated subsidiaries. The corporation's revenue consists primarily of proceeds from these timber-cutting contracts. Revenue and associated expenses related to the timber cutting contracts with our unconsolidated subsidiaries are deferred until the timber (in the form of either whole logs, lumber, plywood or other wood products) is sold outside the unconsolidated subsidiaries.

The corporation and the unconsolidated subsidiaries have entered into a cost sharing and administrative service agreement. The cost sharing and administrative service agreement covers accounting, transaction processing, human resources, information technology, legal, environmental, treasury, corporate affairs, and other day-to-day operational activities. As a result, there are receivables and payables between the corporation and the unconsolidated subsidiaries which are settled in the ordinary course of business. The unconsolidated subsidiaries earn interest at market rates for any cash advances to the corporation that are in excess of any distributions to the corporation. At December 31, 1999, the net related party payable to the unconsolidated subsidiaries was $26,522.

Current assets include a receivable of $811,000 from the owners of the former general partner of the partnership related to their share of the 1999 management incentive plan award. See Note 11 of the Notes to Financial Statements for a summary of the management incentive plan. Non-current assets include notes receivable of $1.9 million and accrued interest from four officers, representing loans to these officers to fund their purchases of the voting common stock of the corporate subsidiaries. The notes are due in ten years, payable on demand, with an interest rate of 9%.

Prior to the REIT conversion, the general partner had overall responsibility for management of the operations. The general partner owned a 2% general partner interest in the income and cash distributions of the partnership, subject to certain adjustments, and owned 2% of the manufacturing subsidiary and 4% of the marketing subsidiary. Plum Creek Timber Company, L.P. reimbursed the general partner for the actual costs of administering the businesses. Amounts reimbursed to the general partner for such costs were $4.4 million for the six months ended June 30, 1999, $7.7 million for 1998 and $6.7 million for 1997.

Plum Creek Timber Company, L.P. was required under the partnership agreement to reimburse the general partner for compensation costs related to the management of the partnership, including the purchase of units associated with the unit-based compensation plans discussed in Note 11 of the Notes to Financial Statements. During January 1999, a final payment of $6.2 million was paid to the general partner in connection with the funding of the 1994 plans. Additionally, the general partner was paid $2.4 million in 1998 and $9.2 million in 1997.

Prior to the REIT conversion, net income was allocated to the general partner based on 2% of the combined net income (adjusted for the incentive distribution), plus the incentive distribution, as provided under the partnership agreement. The incentive distribution was $16.7 million in 1999, $32.9 million in 1998 and $30.3 million in 1997.

Certain conflicts of interest could arise as a result of the relationships described above. The board of directors and management of the general partner had a duty to manage the operation of the business in the best interests of the unitholders and, consequently, had to exercise good faith and integrity in handling the assets and affairs of the business. Related non-interest bearing receivables and payables with the general partner were settled in the ordinary course of business. At December 31, 1998, there was a receivable from the general partner of $507,978 and at December 31, 1997, there was a receivable of $138,502.

NOTE 13. COMMITMENTS AND CONTINGENCIES

During 1993, the partnership entered into a sourcing contract to sell logs to a customer over a ten-year period ending in 2003, based upon prevailing market rates. The partnership also had an annual commitment to supply pulpwood and residual chips to a customer for a 20-year period ending in 2016, based upon prevailing market rates. As part of the 1998 acquisition in Maine, the partnership entered into a long-term agreement to supply fiber to S.D. Warren Company's paper facility in Skowhegan, Maine, at prevailing market prices. The fiber supply agreement with S.D. Warren Company expires in 2023 and may be extended for up to 15 additional years at the option of S.D. Warren Company. As a part of the REIT conversion, these contracts and commitments were transferred to the unconsolidated subsidiaries.

The corporation and the unconsolidated subsidiaries are subject to regulations regarding forest and harvest practices and are, from time to time, involved in various legal proceedings, including environmental matters, incidental to its business. While administration of current regulations and any new regulations or proceedings have elements of uncertainty, it is anticipated that no pending legal proceedings or regulatory matters will have a materially adverse effect on the financial position, results of operations or liquidity of the corporation.

The corporation leases buildings and equipment under non-cancelable operating lease agreements. A large portion of the non-cancelable operating lease agreements were transferred to the unconsolidated subsidiaries as part of the REIT conversion. Operating lease expense was $3.3 million in 1999, $3.2 million in 1998 and $2.9 million in 1997. The following summarizes the future minimum lease payments for the corporation and unconsolidated subsidiaries (in thousands):

2000	$ 2,967
2001	2,488
2002	2,004
2003	1,475
2004	706
Thereafter	554
Total	$ 10,194

In June 1999, the partnership and its general partner settled previously disclosed unitholder litigation relating to the REIT conversion. The settlement obligates the former general partner to pay up to $30 million into a fund for distribution to eligible unitholders if specified five-year financial targets of the corporation are not met. Payments by the general partner, if any, would generally be made following the end of the five-year period, on or about April 15, 2004, and may be accelerated upon the occurrence of an extraordinary transaction.

Pursuant to the Securities and Exchange Commission's Staff Accounting Bulletin No. 79, any payment made by the former general partner under the settlement will be accounted for as a deemed capital contribution by the former general partner to the corporation, followed by a non-cash expense of the corporation. The Staff Accounting Bulletin requires that payments made by a principal shareholder of a corporation or a general partner of a partnership be expensed by the corporation or partnership if the entity receives any benefit as a result of such payment. Therefore, in accordance with Staff Accounting Bulletin No. 79, the corporation will record a non-cash expense in the period(s) in which, and to the extent that, it appears probable that a payment is required. Payments by the former general partner, if any, will have no impact on the corporation's cash flow.

There are no other contingent liabilities which would have a materially adverse effect on the financial position, the results of operations or liquidity of the corporation.

Prior to the REIT conversion, a portion of the partnership's log requirements were acquired through contracts with public and private sources. Except for required deposits, no amounts were recorded until such time as timber was harvested. The unrecorded amounts of those contract commitments were approximately $10.8 million at December 31, 1998, and $15.8 million at December 31, 1997.

NOTE 14. SEGMENT INFORMATION

The corporation is organized into eight business units on the basis of both product line and geographic region. For accounting purposes, the corporation's business segments have not been impacted by the REIT conversion, and except for the change in accounting method discussed below, the segment information has been prepared on a basis consistent with the prior year. Each business unit has a separate management team due to different production processes and/or marketing strategies. In applying SFAS 131, these business units have been aggregated into five reportable segments based on similar long-term economic characteristics. The corporation's and unconsolidated subsidiaries' reportable segments are Northern Resources, Southern Resources, Lumber, Panel and Land Sales.

The Cascade Resource unit, the Rockies Resource unit, and the Northeastern Resource unit are aggregated into the Northern Resources segment. The Northern Resources segment consists of timberlands in the Northwest and Northeastern United States. Northern Resources grows timber for sale in export markets, primarily Pacific Rim countries and Canada, and domestic markets, primarily Idaho, Maine, Montana, and Washington. The domestic market includes sawlog sales to the Lumber and Panel segments and to unaffiliated wood product manufacturers, as well as pulp logs and chips to third-party domestic pulp and paper manufacturers.

The Southern Resources segment consists of timberlands located in the Southern United States. Southern Resources grows timber for sale in domestic markets, primarily Arkansas and Louisiana. Southern Resources' revenues are derived from sawlog sales to the Lumber segment, and to unaffiliated domestic mills, as well as pulp logs and chips to third-party domestic pulp and paper manufacturers.

The Northwest Lumber unit and the Southern Lumber unit are aggregated into the Lumber segment. The Lumber segment consists of eight manufacturing facilities in the Northwest and Southern United States. These facilities produce boards, studs, and dimension lumber targeted to domestic lumber retailers, home construction, and industrial customers, and to a lesser extent, Pacific Rim countries and Western Europe. Residual chip products are sold to regional pulp and paper manufacturers.

The Panel segment consists of two plywood facilities and one MDF manufacturing facility located in the Northwest United States. These facilities produce high-quality panels that are primarily targeted towards domestic industrial customers, such as boat, recreational vehicle, furniture and door manufacturers, and to a lesser extent, Canada, Western Europe and the Pacific Rim countries. Residual chip products are sold to regional pulp and paper manufacturers. Plywood revenues represented approximately 73% of the panel segment revenues in 1999 and 71% in 1998 and 1997.

The Land Sales segment consists of timberlands that have been identified from time-to-time as having a higher and better use than forest management, such as for recreational or conservation purposes.

A plywood manufacturing facility in the Southern United States and a chip facility in the Northwest United States are included in "Other." In 1998, we closed the plywood and chip facility.

The accounting policies of the segments are substantially the same as those described in Note 1 of the Notes to Financial Statements. For segment purposes, however, inventories are stated at the lower of average cost or market on the first-in, first-out method. Segment data includes external revenues, intersegment revenues and operating income, as well as export revenues and depreciation, depletion, and amortization. The corporation evaluates performance and allocates capital to the segments based on operating income before other gains and losses, interest, unallocated corporate expenses, and taxes. Asset information is not reported by segment, as the corporation does not produce such information internally.

The table below presents information about reported segments for the years ending December 31, 1999, 1998, and 1997 (in thousands).

	Northern Resources	Southern Resources	Lumber	Panel	Land Sales	Other	Total
1999							
External revenues	$ 167,078	$ 52,104	$ 343,423	$ 172,570	$ 23,682		$ 758,857
Intersegment revenues	124,837	47,109					171,946
Export revenues	27,245		4,380	11,154			42,779
Depreciation, depletion and amortization	32,067	16,190	15,596	11,107			74,960
Operating income	90,712	37,117	23,274	26,491	19,846		197,440
1998							
External revenues	$ 131,625	$ 68,800	$ 281,614	$ 154,640	$ 32,813	$ 29,878	$ 699,370
Intersegment revenues	118,675	49,562					168,237
Export revenues	23,197		7,127	1,638			31,962
Depreciation, depletion and amortization	29,716	15,530	13,105	10,598		274	69,223
Operating income	73,715	53,568	2,599	14,360	26,598	(2,247)	168,593
1997							
External revenues	$ 158,535	$ 54,780	$ 294,839	$ 149,618	$ 17,884	$ 49,915	$ 725,571
Intersegment revenues	115,387	64,287					179,674
Export revenues	41,003		16,125	5,950			63,078
Depreciation, depletion and amortization	30,204	17,734	11,514	10,004		678	70,134
Operating income	98,792	54,313	34,667	8,462	13,963	(1,152)	209,045

A reconciliation of total operating income to income before income taxes, for the years ended December 31, is presented below (in thousands). In the fourth quarter of 1999, the corporation changed its accounting policy with respect to certain reforestation costs. See Note 1 of the Notes to Financial Statements for further details. The new accounting policy was applied retroactively to the beginning of 1999. As a result of this new accounting policy, the Northern Resources segment's 1999 operating income was favorably impacted by $2.2 million and the Southern Resources segment's 1999 operating income was favorably impacted by $0.7 million.

	1999	1998	1997
Total segment operating income	$ 197,440	$ 168,593	$ 209,045
Operating income recognized by unconsolidated subsidiaries	(29,315)		
Gain (loss) on disposition of assets – net	3,697	(805)	(1,223)
Interest expense – net	(61,474)	(59,580)	(59,251)
Corporate and other unallocated expenses	(27,543)	(32,255)	(36,795)
Income before income taxes and equity earnings of unconsolidated subsidiaries, preferred stock dividends and cumulative effect of accounting change	$ 82,805	$ 75,953	$ 111,776

Intersegment sales prices are determined quarterly, based upon estimated market prices and terms in effect at that time. Export revenues consist of log sales primarily to Japan and Canada, as well as lumber and panel sales primarily to Canada, Western Europe and the Pacific Rim countries. No single customer provides more than 10% of the combined revenues of the corporation and unconsolidated subsidiaries. The corporation and unconsolidated subsidiaries hold no long-lived foreign assets.

NOTE 15. SUBSEQUENT EVENTS

On January 11, 2000, the corporation announced that it will add a 95 million-square-foot thin-board production line to its medium density fiberboard facility in Columbia Falls, Montana. The new facility is expected to cost approximately $69 million plus approximately $6 million of capitalized interest and is expected to be operational by the end of 2001.

On January 14, 2000, the corporation sold approximately 90,000 acres of timberlands and higher and better use lands near St. Maries, Idaho, to Crown Pacific Limited Partnership for approximately $73 million. The sale will result in approximately $8.8 million of operating income (portion of sales proceeds related to higher and better use land) and $50.2 million of gain on sale of assets in the first quarter of 2000. Proceeds from the sale will primarily be used to acquire additional timberlands or reduce our outstanding indebtedness.

On January 27, 2000, the board of directors authorized the corporation to make a dividend distribution of $0.57 per share. Total dividends will approximate $39.4 million and will be paid on February 29, 2000, to stockholders of record on February 16, 2000.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF PLUM CREEK TIMBER COMPANY, INC.

In our opinion, the accompanying consolidated/combined balance sheets and the related consolidated/combined statements of income and of cash flows present fairly, in all material respects, the financial position of Plum Creek Timber Company, Inc. at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

On July 1, 1999, the Company converted from a master limited partnership to a REIT entity and accordingly, the manufacturing and harvesting operations are now conducted in unconsolidated subsidiaries.

As discussed in Note 1 of the Notes to Financial Statements, the Company changed its method of accounting for reforestation and silviculture costs effective January 1, 1999.

PricewaterhouseCoopers LLP

Seattle, Washington
January 25, 2000

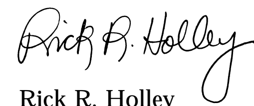
REPORT OF MANAGEMENT

The management of Plum Creek Timber Company, Inc. is responsible for the preparation, fair presentation, and integrity of the information contained in the financial statements in this Annual Report. These statements have been prepared in accordance with generally accepted accounting principles and include amounts determined using management's best estimates and judgments.

The Company maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are recorded properly to produce reliable financial records. The system of internal controls includes appropriate divisions of responsibility, established policies and procedures (including a code of conduct to promote strong ethics) that are communicated throughout the Company, and careful selection, training and development of our people. The Company conducts a corporate audit program to provide assurance that the system of internal controls is operating effectively.

Our independent certified public accountants have performed audit procedures deemed appropriate to obtain reasonable assurance that the financial statements are free of material misstatement.

The board of directors provides oversight to the financial reporting process through its Audit and Compliance Committee, which meets regularly with management, corporate audit, and the independent certified public accountants to review the activities of each and to ensure that each is meeting its responsibilities with respect to financial reporting and internal controls.



Rick R. Holley
President and
Chief Executive Officer

William R. Brown
Executive Vice President and
Chief Financial Officer

CONSOLIDATED/COMBINED QUARTERLY INFORMATION (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE/UNIT)

1999 (as filed in the Form 10-Qs)	1st Quarter	2nd Quarter	3rd Quarter[1]
Revenues	$ 178,221	$ 184,349	$ 51,999
Gross profit	49,110	55,553	36,215
Operating income	38,667	44,449	33,270
Net income	17,862	22,535	45,648
Net income allocable to Stockholders/Unitholders	9,328	13,907	45,648
Net income per Share/Unit	$ 0.20	$ 0.30	$ 0.72

In the fourth quarter of 1999 the corporation adopted a new accounting policy to capitalize certain timber reforestation costs that were previously expensed. The new capitalization policy was applied retroactively as of January 1, 1999, and resulted in restating previously reported quarterly information. Presented below are the restated first, second and third quarters along with the fourth quarter information.

SUPPLEMENTARY FINANCIAL INFORMATION

1999	1st Quarter	2nd Quarter	3rd Quarter[1]	4th Quarter[2]
Revenues	$ 178,221	$ 184,349	$ 51,999	$ 46,051
Gross profit	48,826	57,051	36,660	32,261
Operating income	38,838	45,947	33,715	28,379
Income before cumulative effect of accounting change	17,578			
Cumulative effect of accounting change	12,169			
Net income	29,747	24,033	46,093	25,728
Net income allocable to Stockholders/Unitholders	21,213	15,405	46,093	25,728
Income allocable to Stockholders/Unitholders per Share/Unit before cumulative effect of accounting change	$ 0.20			
Cumulative effect of accounting change per Share/Unit	$ 0.26			
Net income per Share/Unit[3]	$ 0.46	$ 0.33	$ 0.73	$ 0.38

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 164,325	$ 71,799	$ 174,476	$ 188,770
Gross profit	45,681	50,675	42,625	55,023
Operating income	36,041	32,885	32,101	40,060
Net income	21,280	16,131	16,042	21,983
Net income allocable to Stockholders/Unitholders	13,181	7,631	7,544	13,367
Net income per unit	$ 0.28	$ 0.17	$ 0.16	$ 0.29

[1] A one-time income tax benefit of approximately $14.0 million was included in the third quarter 1999 results of operations associated with the assets and liabilities transferred to the unconsolidated subsidiaries in the REIT conversion. See Note 1 of the Notes to the Financial Statements.

[2] Included in the fourth quarter 1999 results of operations was a gain of $3.6 million related to a land exchange in the Cascades Region. See Note 9 of the Notes to Financial Statements.

[3] Net income per share/unit is computed independently for each of the quarters presented. Therefore the sum of the quarterly net income per share/unit does not equal the total computed for the year due to the issuance of shares during the third and fourth quarters of 1999, See Note 8 of the Notes to Financial Statements.

MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Plum Creek Timber Company, Inc.'s common stock is traded on the New York Stock Exchange and the Pacific Exchange. As of February 15, 2000, there were approximately 63,589 beneficial owners of 69,206,575 outstanding shares.

Trading price data, as reported on the New York Stock Exchange Composite Tape, and declared cash distribution information for 1999 and 1998, are as follows:

STOCK INFORMATION

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 29 7/16	$ 32 1/8	$ 31 7/8	$ 29 1/2
Low	25 1/2	25 3/4	26 1/8	23 13/16
Cash distribution per Share or Unit	$ 0.57	$ 0.57	$ 0.57	$ 0.57

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 34 7/8	$ 34 1/4	$ 31	$ 28 3/4
Low	30	28 3/16	24 1/2	25
Cash distribution per Unit	$ 0.57	$ 0.57	$ 0.57	$ 0.57

DIRECTORS

David D. Leland
Chairman of the Board
Plum Creek Timber Company, Inc.

Rick R. Holley
President and Chief Executive Officer
Plum Creek Timber Company, Inc.

Ian B. Davidson
Chairman of the Board
D.A. Davidson & Co.

Charles P. Grenier
Executive Vice President
Plum Creek Timber Company, Inc.

Prof. John G. McDonald
Graduate School of Business
Stanford University

Hamid R. Moghadam
President and Chief Executive Officer
AMB Property Corporation

William E. Oberndorf
Managing Director
SPO Partners & Co.

William J. Patterson
Managing Director
SPO Partners & Co.

John H. Scully
Managing Director
SPO Partners & Co.

OFFICERS

Rick R. Holley
President and Chief Executive Officer

William R. Brown
Executive Vice President and
Chief Financial Officer

Charles P. Grenier
Executive Vice President

Michael J. Covey
Vice President, Resources

Barbara L. Crowe
Vice President, Human Resources

James A. Kraft
Vice President, General Counsel
and Secretary

David A. Brown
Controller

David W. Lambert
Treasurer and Director of Planning

PRINCIPAL HEADQUARTERS

Plum Creek Timber Company, Inc.
999 Third Avenue, Suite 2300
Seattle, Washington 98104
(206) 467-3600
Internet: www.plumcreek.com

ANNUAL MEETING

Date:	May 10, 2000
Time:	9:00 a.m.
Location:	Seattle Art Museum 100 University Street Seattle, Washington 98101

INVESTOR RELATIONS

Emilio D. Ruocco
Director of Investor Relations

(800) 858-5347 or (206) 467-3618
info@plumcreek.com

FORM 10-K

Additional copies of this Report and Plum Creek's Report on Form 10-K are available without charge upon written request to:

Plum Creek Timber Company, Inc.
Investor Relations
999 Third Avenue, Suite 2300
Seattle, Washington 98104

STOCK TRANSFER AGENT AND REGISTRAR

BankBoston, N.A.
c/o EquiServe, L.P.
Boston Division
P.O. Box 8040
Boston, Massachusetts 02266-8040

Telephone inquiries: (800) 730-6001
Facsimile: (781) 828-8813
Internet: www.equiserve.com

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP
1800 Wells Fargo Center
Seattle, Washington 98104

PLUM CREEK TIMBER COMPANY, INC.

RECYCLED/RECYCLABLE

DESIGN: METHODOLOGIE, SEATTLE   COPYWRITING: KAREN WILSON
MAJOR PHOTOGRAPHY: JEFF CORWIN   PRINTING: COLORGRAPHICS-SEATTLE

PLUM CREEK TIMBER
COMPANY, INC.

999 Third Avenue, Suite 2300
Seattle, Washington 98104
(206) 467-3600
Internet: www.plumcreek.com