

# STANDING FIRM



PlumCreek

2011 ANNUAL REPORT

## **THE PUREST TIMBERLAND INVESTMENT AVAILABLE**

At the core of our business is a 6.6 million acre portfolio of productive timberlands. Our shareholders participate in the attractive long-term economics of timberland investing and the multiple options for value creation inherent in these investments. We manage our portfolio of timberlands to maximize its long-term financial returns. We focus our business on resource assets.

## **A PORTFOLIO WITH MULTIPLE VALUES: TIMBER, LAND, AND SUBSURFACE ASSETS**

We work to maximize the value of every acre we own and manage. Our asset portfolio includes highly productive forests, natural gas, wind, water, and other subsurface assets, as well as the conservation, recreation, and real estate values of the land itself. Plum Creek is the leader in recognizing the full array of these values for our shareholders, leading to attractive long-term financial returns.

## **UNMATCHED SCALE AND RISK-REDUCING GEOGRAPHIC DIVERSITY**

Plum Creek takes a comprehensive approach to value creation and applies it to the largest and most diverse portfolio of timberlands available to investors in the world. The unmatched scope and scale of our ownership provides the company with operational flexibility, market insight, and risk management unavailable in any other timberland investment.

## **GROWING HARVESTS DRIVE CASH FLOW GROWTH**

The biology of our forests will result in a nearly 30% increase in our sustainable harvests over the next 10 years. This growing harvest will elevate future cash flows. Additionally, higher timber prices will combine with the increased harvest to grow future sustainable cash flows at an even faster pace.

## **A PIONEER OF SUSTAINABLE MANAGEMENT**

Sustainability is not a new concept at Plum Creek. In fact, more than a decade ago, Plum Creek was the first in the nation to have all its timberlands independently certified under the Sustainable Forestry Initiative®. This commitment to sustainability continues to this day through ongoing third-party audits conducted by Bureau Veritas. Additionally, several business initiatives are producing clean energy from our resources, including wind power from our lands and renewable, sustainably produced wood fiber for energy production.



**“WE WORK TO MAXIMIZE THE VALUE OF EVERY ACRE WE OWN AND MANAGE”**

# DEAR FELLOW SHAREHOLDERS,



**RICK HOLLEY**  
President and  
Chief Executive Officer

To say the economic environment remains challenging is an understatement. Five years ago, I would not have foreseen housing starts as low as one million, yet they have hovered around 600,000 for three years in a row! Unemployment remains high while the economy is growing, albeit sluggishly. The last five years have been difficult for everyone — families, investors and companies. Yet, despite these challenges, Plum Creek has continued to perform very well. Although I'm not one to dwell on the past, I think it's worth reflecting back on how the company has navigated through these uncertain times.

**We continue to manage the company very conservatively. Over the past five years, we:**

- Sold 1.3 million acres of non-core timberlands, generating nearly \$2 billion of revenue.
- Purchased 275,000 acres of high-quality timberlands for \$382 million.
- Repurchased 17.3 million shares of our stock at a large discount to intrinsic value.
- Paid down \$333 million of our third-party debt, reducing annual third-party interest costs by \$52 million.
- Reduced our annual SG&A costs by \$16 million.
- Invested \$250 million to improve the productivity of our forests.
- Generated cash flow from operations that averaged \$460 million per year, well in excess of our annual dividend.

These actions enabled Plum Creek to maintain a strong balance sheet with significant liquidity throughout the recession. In fact, our strong balance sheet and approach to managing the company earned Plum Creek credit rating upgrades by both Moody's and S&P in 2011.

During this period, we continued to manage the company for long-term value. As market conditions softened, we deferred the harvest of some of our sawlogs, allowing those trees to continue to grow until markets and prices recover. We also continued to hold onto our most valuable recreational real estate in Florida, Montana and Georgia while we patiently wait for the value of these properties and the overall real estate market to recover.

Our approach has been rewarded. Over the last five years, our stock has provided a compounded annual total return of 2.8% versus a negative return for the S&P 500. While we certainly are not satisfied with this return, our value focus, conservative approach, and geographic diversity of assets enabled us to respond to opportunities and outperform most other companies.

Our revenue for the year was \$1.17 billion, and net income was \$193 million. Importantly, our cash flow from operations was \$374 million, which exceeded our annual dividend payment of \$272 million. The company ended the year in excellent financial shape with \$254 million of cash and an additional \$250 million available under our line of credit.

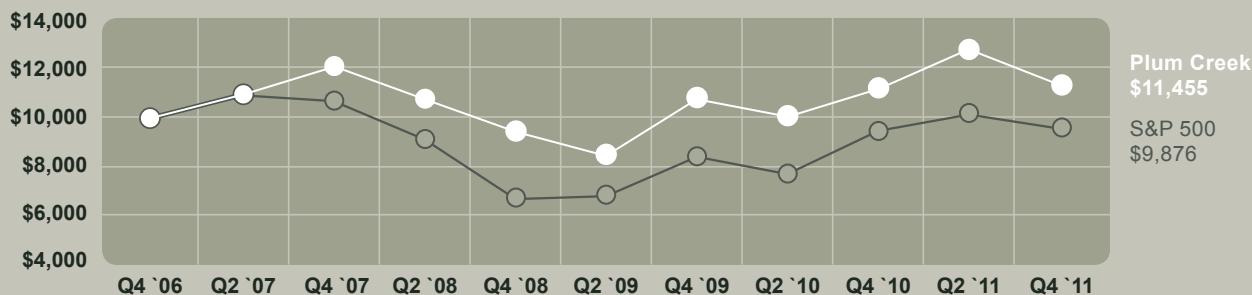
As I mentioned last year, I'm more excited about Plum Creek and its future prospects than ever before. Why, you might ask, given high unemployment rates, a depressed housing market, the sluggish U.S. economy, and struggling world financial and economic markets?

First, investments we've made in the productivity of our forests increase their value as our timber inventory grows over time. Our timber growth was 20 million tons in 2011 while our harvest was less than 16 million tons. As our timber inventory grows, our annual harvest — the cornerstone of the value growth of the company — is expected to increase by

## VALUE OF A \$10,000 INVESTMENT IN PLUM CREEK VS. S&P 500 OVER 5 YEARS

(Includes Reinvestment of Dividends)

Over the past five years, an investment in Plum Creek has provided superior returns compared with those of the S&P 500. An investment in Plum Creek provided compound annual returns of 2.8% versus the S&P's -0.3% return.



nearly 30% over the next 10 years. Meanwhile, the percentage of higher-value sawlogs in our annual harvest will increase and exceed 50% versus 46% currently. The expected increase in harvest volume combined with the higher proportion of the sawlogs harvested should raise our cash flow over the next several years more than \$75 million — before factoring in any price improvement.

Plum Creek is well positioned to reap important benefits when the housing market and general economy recover. As the largest independent seller of wood fiber in the country, we have a significant price-recovery upside for our products and valuable assets. For example, a \$10 per ton improvement in sawlog price at today's harvest volumes represents a \$73 million improvement in cash flow. A \$5 per ton improvement in pulpwood prices equates to \$43 million of additional cash flow. Thus, we have significant opportunities to increase earnings and cash flow as markets recover.

Another critical factor on the horizon is the major structural change in the future supply of lumber in North America. Canada has long been a major supplier of construction lumber to the U.S. British Columbia, which represents about 50% of the lumber produced in Canada, is suffering from a catastrophic mountain pine beetle infestation, which has affected more than 43 million acres of timberland in the interior of the province. It is estimated that nearly 60% of the timber in that area will be dead by 2016, resulting in a projected one-third reduction in British Columbia's annual allowable harvest, with a corresponding reduction in lumber production that will last for several decades. This structural shift will dramatically affect the marketplace. An increasing proportion of North American

lumber will be produced at U.S. mills, resulting in a positive impact on log prices and timberland values in our operating areas.

Plum Creek is also benefitting from new sources of demand for sawlogs and pulpwood. The volume of log and lumber exports to China from the U.S. and Canada is increasing. Along with China's rapid economic growth comes an increasing demand for wood products. As a result, U.S. log exports to China increased dramatically in 2011. In fact, we sold 17% of the sawlogs we harvested in Oregon during the year to China at very attractive prices.

We continue to explore opportunities to use our lower-value pulpwood as a source of renewable energy. We have signed a supply agreement with a European utility to provide up to one million tons of wood fiber annually to be used as renewable energy. This wood fiber will be converted into wood pellets in the U.S. and transported to Europe to produce energy. Today, Europe uses 11 million tons of wood pellets annually. To meet European policy mandates, pellet usage will need to grow to 35 million tons per year by 2020. Meanwhile, the U.S. continues to focus on wood as an energy source.

We remain excited about the construction materials (sand, gravel and rock) and the oil and gas assets on our land. During 2011, we leased 65,000 acres of land in Louisiana for oil and gas production and received bonus payments of \$21 million. During the second quarter, we purchased aggregate assets for \$12 million that are providing the company with a very attractive return. We expect the contribution from these assets to grow over time, and we will continue to seek opportunities to enhance that growth.

The company has taken advantage of the economic downturn by creating value through the entitlement of some of our development lands. Most of our current entitlement activities have been in Florida and Georgia, markets we believe will be on the forefront of the real estate recovery. For example, in Columbia County, Florida, we are collaborating with state and local economic development leaders and the governor's office to position approximately 2,600 acres to serve as an inland port. We are in the final stages of negotiation with our first tenant, a manufacturing business that will bring jobs and investment to this area. Another example is our 65,000-acre Alachua County project near Gainesville, Florida, the home of the University of Florida. Plum Creek is sponsoring a community planning and visioning process to discuss future economic development, community and conservation opportunities on this property.

Looking ahead to 2012, we do not anticipate any meaningful change in the housing market and expect U.S. economic growth to remain slow. Our housing start forecast is at 700,000 — up from 607,000 in 2011 — and we expect housing to slowly recover to a demographically supportable level of 1.5 million to 1.7 million over the next five years. All of this translates into a significant growth potential in the cash flow of our core timber business and the company over the next several years — and as the cash flow from our core business grows, we expect to grow the dividend, a key component of shareholder value. That's why we are excited!

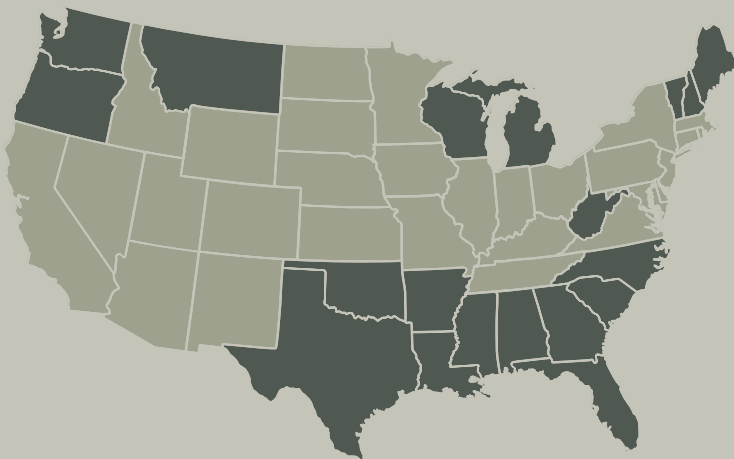
Meanwhile, we will continue to invest in the productivity of our core timber asset, including planting 63 million trees annually. We will look to buy assets with attractive returns and to sell assets that we do not believe add long-term value. We will continue to work to entitle many of our high-value development properties so we can realize that value when markets recover. We will maintain a strong balance sheet with ample liquidity so we can take advantage of market opportunities as they arise. We will continue to work closely with our customers and contractors, treating them as business partners. And effective capital allocation continues to be Job #1. Most importantly, we will continue to focus on growing the value of the company.

Although Plum Creek has very valuable land and timber assets, our 1,200 employees are our most valuable asset. They are the ones who make a difference and set Plum Creek apart from any company I know. Their hard work and dedication deserve our thanks. I also thank you, our shareholders, for your continued support.



**RICK HOLLEY**  
**President and**  
**Chief Executive Officer**

# DISTRIBUTION OF ACREAGE



Alabama.....	113,000	North Carolina.....	4,000
Arkansas.....	724,000	Oklahoma.....	6,000
Florida.....	520,000	Oregon.....	402,000
Georgia.....	772,000	South Carolina.....	175,000
Louisiana.....	418,000	Texas.....	34,000
Maine.....	883,000	Vermont.....	86,000
Michigan.....	582,000	Washington.....	90,000
Mississippi.....	602,000	West Virginia.....	111,000
Montana.....	899,000	Wisconsin.....	188,000
New Hampshire.....	30,000	<b>Total.....</b>	<b>6,639,000</b>

2007 – 2011

# SELECTED FIVE-YEAR FINANCIAL HIGHLIGHTS

\$ in millions, except per share amounts	2011	2010	2009	2008	2007
<b>INCOME STATEMENT ITEMS</b>					
Revenues	\$ 1,167	\$ 1,190	\$ 1,294	\$ 1,614	\$ 1,675
Operating Income	275	297	299	328	424
Equity Earnings from Timberland Venture	56	57	55	15	–
Interest Expense (Note Payable to Timberland Venture)	58	58	58	14	–
Interest Expense, net (Debt Obligations to Unrelated Parties)	81	80	89	134	147
Income before Income Taxes <sup>A</sup>	192	203	205	206	277
Provision (Benefit) for Income Taxes	(1)	1	(31)	(27)	(3)
Income from Continuing Operations	193	202	236	233	280
Gain on Sale of Properties, net of tax	–	11	–	–	2
Net Income	193	213	236	233	282
<b>NON-CASH ITEMS</b>					
Depreciation, Depletion, and Amortization <sup>B</sup>	96	96	109	135	134
Basis of Real Estate Sold	77	132	155	149	108
<b>BALANCE SHEET ITEMS</b>					
Total Assets	4,259	4,251	4,448	4,780	4,664
Total Debt Obligations (to Unrelated Parties) <sup>C</sup>	1,996	1,909	2,006	2,189	2,532
Note Payable to Timberland Venture (a Related Party)	783	783	783	783	–
<b>EARNINGS PER SHARE (DILUTED)</b>					
Income from Continuing Operations	\$ 1.19	\$ 1.24	\$ 1.44	\$ 1.37	\$ 1.60
Net Income	\$ 1.19	\$ 1.31	\$ 1.44	\$ 1.37	\$ 1.61
Dividends Declared per Share	\$ 1.68	\$ 1.68	\$ 1.68	\$ 1.68	\$ 1.68
<b>TIMBERLAND AND MINERAL ACQUISITIONS</b>					
Purchase Price	\$ 101	\$ –	\$ –	\$ 119	\$ 174
Acres	59,000	–	–	147,000	69,000
Timberland Dispositions (Acres) <sup>D</sup>	185,000	258,000	297,000	314,000	252,000
Harvest Volume (in Million Tons)	15.8	15.4	15.8	19.6	20.4

A. Includes a \$13 million loss in 2010, a \$2 million loss in 2009, and an \$11 million gain in 2008 on extinguishment of debt.

B. Includes a \$10 million lumber manufacturing assets impairment loss in both 2009 and 2008 and a \$4 million loss related to forest fires in 2007.

C. Includes Timber Obligations accounted for as capital leases.

D. Timberland dispositions during 2008 do not include approximately 454,000 acres located in the Southern Resources Segment that were contributed to a timberland venture in exchange for an equity interest.

# FORM 10-K 2011



PlumCreek

## HOW WE DO BUSINESS

The timber and land assets Plum Creek owns are a tremendous store of value. We think of our forests as the principal of an investment — one that grows biologically each year. As these trees grow in volume, they also grow in value as larger trees become better suited for more valuable end uses. Sustainably managed and third-party certified under the Sustainable Forestry Initiative® (SFI®), these growing forests are capable of generating cash flows for generations.

Just as our timber assets represent a unique and growing store of value, so do our underlying land assets. As the population of the nation has expanded, so has the demand for rural land for recreation, permanent conservation, and family retreats.

Below the ground, additional opportunities exist to create value from our asset base. Natural gas, industrial minerals, sand, gravel and aggregates all play a role in maximizing the value of our asset base.

Our job is to maximize the value of these remarkably valuable assets — and to deliver that value to our shareholders. Through the scope and scale of our ownership, we have a perspective on timber and rural land markets that is unmatched. It provides superior insight into value-creation opportunities across the nation — which leads to superior investment decisions.

Our view of these assets is as intimate as it is comprehensive. Our professional foresters, real estate professionals, and experts in non-timber natural resources evaluate every acre we manage to understand its highest-value use. And we manage each acre as productive forest with its ultimate end use in mind.

As Plum Creek has grown, our disciplined approach to capital allocation has remained constant. We base investment decisions on the value created by their long-term cash flows. Our strategies are designed and proven to grow the long-term value of our shareholders' investments: paying an attractive, sustainable dividend; making acquisitions that add to our cash flow; and opportunistically repurchasing our stock.

## BOARD OF DIRECTORS

John F. Morgan Sr.

**CHAIRMAN OF THE BOARD**

Plum Creek Timber Company, Inc.

**OWNER**

Morgan Timber, LLC, a private timber company

Rick R. Holley

**PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Plum Creek Timber Company, Inc.

Robin Josephs

**FORMER MANAGING DIRECTOR**

Starwood Capital Group, a real estate investment firm

John G. McDonald

**PROFESSOR OF FINANCE**

Stanford Investors Chair, Graduate School of Business, Stanford University

Robert B. McLeod

**CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

Newland Communities, a national developer of master planned communities

Marc F. Racicot

**ATTORNEY**

John H. Scully

**MANAGING DIRECTOR**

SPO Partners & Co., a private investment firm

Lawrence A. Selzer

**PRESIDENT AND CHIEF EXECUTIVE OFFICER**

The Conservation Fund, an environmental nonprofit organization

Stephen C. Tobias

**FORMER VICE CHAIRMAN AND CHIEF OPERATING OFFICER**

Norfolk Southern Corporation, a rail transportation company

Martin A. White

**FORMER CHAIRMAN OF THE BOARD,**

**PRESIDENT AND CHIEF EXECUTIVE OFFICER**

MDU Resources, Inc., an energy and natural resources company



## EXECUTIVE COMMITTEE



Rick R. Holley



Thomas M. Lindquist



David W. Lambert



Larry D. Neilson



James A. Kraft



Barbara L. Crowe



Joan K. Fitzmaurice



Thomas G. Ray



Thomas M. Reed

## CORPORATE LEADERSHIP

### Executive Officers

#### Rick R. Holley\*

PRESIDENT AND CHIEF EXECUTIVE OFFICER

#### Thomas M. Lindquist\*

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

#### David W. Lambert\*

SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

#### James A. Kilberg

SENIOR VICE PRESIDENT, REAL ESTATE

#### Larry D. Neilson\*

SENIOR VICE PRESIDENT, RESOURCES AND OPERATIONS SUPPORT

#### James A. Kraft\*

SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY

#### Russell S. Hagen

SENIOR VICE PRESIDENT, BUSINESS DEVELOPMENT

#### David A. Brown

VICE PRESIDENT, CHIEF ACCOUNTING OFFICER

#### Barbara L. Crowe\*

VICE PRESIDENT, HUMAN RESOURCES

#### Joan K. Fitzmaurice\*

VICE PRESIDENT, COMMUNICATIONS, SUSTAINABILITY AND AUDIT

\*Executive Committee Member

#### Thomas G. Ray\*

VICE PRESIDENT, NORTHWEST RESOURCES AND MANUFACTURING

#### Thomas M. Reed\*

VICE PRESIDENT, SOUTHERN RESOURCES

### Corporate Officers

#### Paul J. Davis

VICE PRESIDENT, NORTHERN HARDWOODS

#### John B. Hobbs

VICE PRESIDENT, INVESTOR RELATIONS

#### Robert J. Jirsa

VICE PRESIDENT, GOVERNMENT RELATIONS

#### Peter C. Madden

VICE PRESIDENT, RENEWABLE ENERGY AND SUPPLY CHAIN

#### Mark Miller

VICE PRESIDENT AND CHIEF INFORMATION OFFICER

#### Robert J. Olszewski

VICE PRESIDENT, ENVIRONMENTAL AFFAIRS

#### Laura B. Smith

VICE PRESIDENT AND TREASURER

#### Daniel L. Tucker

VICE PRESIDENT, TAX

### Board of Directors

#### John F. Morgan Sr. [A, N]

CHAIRMAN OF THE BOARD  
OWNER, MORGAN TIMBER, LLC

#### Rick R. Holley

PRESIDENT AND CHIEF EXECUTIVE OFFICER  
PLUM CREEK TIMBER COMPANY, INC.

#### Robin Josephs [A, C, F]

FORMER MANAGING DIRECTOR,  
STARWOOD CAPITAL GROUP

#### John G. McDonald [A, N]

PROFESSOR OF FINANCE,  
STANFORD INVESTORS CHAIR, GRADUATE SCHOOL  
OF BUSINESS, STANFORD UNIVERSITY

#### Robert B. McLeod [C]

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,  
NEWLAND COMMUNITIES

#### Marc F. Racicot [A]

ATTORNEY

#### John H. Scully [N]

MANAGING DIRECTOR, SPO PARTNERS & CO.

#### Lawrence A. Selzer

PRESIDENT AND CHIEF EXECUTIVE OFFICER,  
THE CONSERVATION FUND

#### Stephen C. Tobias [C, N]

FORMER VICE CHAIRMAN AND CHIEF OPERATING  
OFFICER, NORFOLK SOUTHERN CORPORATION

#### Martin A. White [C]

FORMER CHAIRMAN OF THE BOARD, PRESIDENT AND  
CHIEF EXECUTIVE OFFICER, MDU RESOURCES, INC.

### Committees of the Board of Directors

[A] Audit

[F] Audit Committee

[C] Compensation

Financial Expert

[N] Corporate Governance  
and Nominating

## CORPORATE INFORMATION

### Principal Headquarters

#### Plum Creek

999 Third Avenue, Suite 4300

Seattle, WA 98104-4096

PHONE: (206) 467 3600

URL: [www.plumcreek.com](http://www.plumcreek.com)

### Investor Relations

#### John B. Hobbs

Vice President, Investor Relations

(800) 858 5347 or (206) 467 3600

### Annual Meeting

DATE: May 8, 2012

TIME: 2 p.m.

LOCATION: Washington Athletic Club

Lobby Level, Noble Room

1325 Sixth Avenue

Seattle, WA 98101

### Form 10-K

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

#### Plum Creek

Investor Relations

999 Third Avenue, Suite 4300

Seattle, WA 98104-4096

### Independent Registered Public Accounting Firm

#### Ernst & Young LLP

999 Third Avenue, Suite 3500

Seattle, WA 98104-4086

### Stock Information

LISTED: New York Stock Exchange

SYMBOL: PCL

CUSIP: 729 251 108

### Stock Transfer Agent and Registrar

#### Computershare Trust Company, N.A.

P.O. Box 43078

Providence, RI 02940-3078

PHONE INQUIRIES: (800) 254 4961

OUTSIDE THE U.S.: (781) 575 3400

TDD, HEARING-IMPAIRED: (800) 952 9245

URL: [www.computershare.com/investor](http://www.computershare.com/investor)

Plum Creek is proud to have the management of all of its timberlands independently certified to the standards of the Sustainable Forestry Initiative® program.



