
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-10239

PLUM CREEK TIMBER COMPANY, INC.
(Exact name of registrant as specified in its charter)

**Organized in the
State of Delaware**

**I.R.S. Employer Identification No.
91-1912863**

**601 Union Street, Suite 3100
Seattle, Washington 98101-1374
Telephone: (206) 467-3600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and

(2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant's common stock, as of July 31, 2014 was 177,124,948.

PLUM CREEK TIMBER COMPANY, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter ended June 30, 2014

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

**PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)**

| (In Millions, Except Per Share Amounts) | Quarter Ended June 30, | |
|--|------------------------|---------|
| | 2014 | 2013 |
| REVENUES: | | |
| Timber | \$ 171 | \$ 146 |
| Real Estate | 77 | 53 |
| Manufacturing | 94 | 99 |
| Energy and Natural Resources | 9 | 5 |
| Other | 5 | — |
| Total Revenues | 356 | 303 |
| COSTS AND EXPENSES: | | |
| Cost of Goods Sold: | | |
| Timber | 125 | 108 |
| Real Estate | 30 | 22 |
| Manufacturing | 84 | 82 |
| Energy and Natural Resources | 3 | 1 |
| Other | 5 | — |
| Total Cost of Goods Sold | 247 | 213 |
| Selling, General and Administrative | 30 | 29 |
| Total Costs and Expenses | 277 | 242 |
| Other Operating Income (Expense), net | 3 | 1 |
| Operating Income | 82 | 62 |
| Earnings from Unconsolidated Entities | 15 | 17 |
| Interest Expense, net: | | |
| Interest Expense (Debt Obligations to Unrelated Parties) | 27 | 20 |
| Interest Expense (Note Payable to Timberland Venture) | 15 | 15 |
| Total Interest Expense, net | 42 | 35 |
| Income before Income Taxes | 55 | 44 |
| Provision (Benefit) for Income Taxes | — | (2) |
| Net Income | \$ 55 | \$ 46 |
| PER SHARE AMOUNTS: | | |
| Net Income per Share – Basic | \$ 0.31 | \$ 0.28 |
| Net Income per Share – Diluted | \$ 0.31 | \$ 0.28 |
| Dividends Declared – per Common Share Outstanding | \$ 0.44 | \$ 0.44 |
| Weighted-Average Number of Shares Outstanding | | |
| – Basic | 177.1 | 162.9 |
| – Diluted | 177.4 | 163.4 |
| SUPPLEMENTAL INCOME STATEMENT INFORMATION: | | |
| Equity Earnings from Timberland Venture | \$ 17 | \$ 17 |
| Equity Loss from Real Estate Development Ventures | (2) | — |
| Earnings from Unconsolidated Entities | \$ 15 | \$ 17 |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| (In Millions, Except Per Share Amounts) | Six Months Ended June 30, | |
|--|---------------------------|---------|
| | 2014 | 2013 |
| REVENUES: | | |
| Timber | \$ 363 | \$ 316 |
| Real Estate | 100 | 131 |
| Manufacturing | 184 | 185 |
| Energy and Natural Resources | 18 | 11 |
| Other | 8 | — |
| Total Revenues | 673 | 643 |
| COSTS AND EXPENSES: | | |
| Cost of Goods Sold: | | |
| Timber | 263 | 232 |
| Real Estate | 40 | 52 |
| Manufacturing | 163 | 157 |
| Energy and Natural Resources | 5 | 2 |
| Other | 8 | — |
| Total Cost of Goods Sold | 479 | 443 |
| Selling, General and Administrative | 59 | 61 |
| Total Costs and Expenses | 538 | 504 |
| Other Operating Income (Expense), net | 4 | 1 |
| Operating Income | 139 | 140 |
| Earnings from Unconsolidated Entities | 29 | 31 |
| Interest Expense, net: | | |
| Interest Expense (Debt Obligations to Unrelated Parties) | 54 | 41 |
| Interest Expense (Note Payable to Timberland Venture) | 29 | 29 |
| Total Interest Expense, net | 83 | 70 |
| Income before Income Taxes | 85 | 101 |
| Provision (Benefit) for Income Taxes | — | (1) |
| Net Income | \$ 85 | \$ 102 |
| PER SHARE AMOUNTS: | | |
| Net Income per Share – Basic | \$ 0.48 | \$ 0.63 |
| Net Income per Share – Diluted | \$ 0.47 | \$ 0.62 |
| Dividends Declared – per Common Share Outstanding | \$ 0.88 | \$ 0.86 |
| Weighted-Average Number of Shares Outstanding | | |
| – Basic | 177.1 | 162.6 |
| – Diluted | 177.4 | 163.1 |
| SUPPLEMENTAL INCOME STATEMENT INFORMATION: | | |
| Equity Earnings from Timberland Venture | \$ 32 | \$ 31 |
| Equity Loss from Real Estate Development Ventures | (3) | — |
| Earnings from Unconsolidated Entities | \$ 29 | \$ 31 |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| (In Millions) | Quarter Ended June 30, | |
|---|------------------------|--------------|
| | 2014 | 2013 |
| NET INCOME | \$ 55 | \$ 46 |
| OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES: | | |
| Defined Benefit Pension Plans: | | |
| Amortization of Actuarial Loss Reclassified to Pension Expense | 1 | 1 |
| Unrealized Gains (Losses) on Grantor Trust Assets: | | |
| Unrealized Holding Gains (Losses) Arising During Period | (2) | 1 |
| Other Comprehensive Income (Loss) Before Tax | (1) | 2 |
| Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income | — | — |
| Other Comprehensive Income (Loss) After Tax | (1) | 2 |
| Comprehensive Income | \$ 54 | \$ 48 |

| (In Millions) | Six Months Ended June 30, | |
|---|---------------------------|---------------|
| | 2014 | 2013 |
| NET INCOME | \$ 85 | \$ 102 |
| OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES: | | |
| Defined Benefit Pension Plans: | | |
| Amortization of Actuarial Loss Reclassified to Pension Expense | 1 | 2 |
| Unrealized Gains (Losses) on Grantor Trust Assets: | | |
| Unrealized Holding Gains (Losses) Arising During Period | (1) | 3 |
| Other Comprehensive Income (Loss) Before Tax | — | 5 |
| Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income | — | — |
| Other Comprehensive Income (Loss) After Tax | — | 5 |
| Comprehensive Income | \$ 85 | \$ 107 |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| (In Millions, Except Per Share Amounts) | June 30, 2014 | December 31, 2013 |
|--|------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 107 | \$ 433 |
| Accounts Receivable | 44 | 29 |
| Inventories | 51 | 55 |
| Deferred Tax Asset | 6 | 9 |
| Assets Held for Sale | 55 | 92 |
| Other Current Assets | 20 | 15 |
| | <u>283</u> | <u>633</u> |
| Timber and Timberlands, net | 4,170 | 4,180 |
| Minerals and Mineral Rights, net | 294 | 298 |
| Property, Plant and Equipment, net | 115 | 118 |
| Equity Investment in Timberland Venture | 215 | 211 |
| Equity Investment in Real Estate Development Ventures | 139 | 139 |
| Deferred Tax Asset | 20 | 17 |
| Investment in Grantor Trusts (at Fair Value) | 46 | 45 |
| Other Assets | 55 | 54 |
| Total Assets | <u>\$ 5,337</u> | <u>\$ 5,695</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Current Portion of Long-Term Debt | \$ — | \$ — |
| Line of Credit | 152 | 467 |
| Accounts Payable | 36 | 24 |
| Interest Payable | 26 | 22 |
| Wages Payable | 17 | 29 |
| Taxes Payable | 14 | 10 |
| Deferred Revenue | 36 | 26 |
| Other Current Liabilities | 11 | 10 |
| | <u>292</u> | <u>588</u> |
| Long-Term Debt | 2,414 | 2,414 |
| Note Payable to Timberland Venture | 783 | 783 |
| Other Liabilities | 81 | 78 |
| Total Liabilities | <u>3,570</u> | <u>3,863</u> |
| Commitments and Contingencies | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred Stock, \$0.01 Par Value, Authorized Shares – 75.0, Outstanding – None | — | — |
| Common Stock, \$0.01 Par Value, Authorized Shares – 300.6, Outstanding (net of Treasury Stock) – 177.1 at June 30, 2014 and 177.0 at December 31, 2013 | 2 | 2 |
| Additional Paid-In Capital | 2,950 | 2,942 |
| Retained Earnings (Accumulated Deficit) | (244) | (173) |
| Treasury Stock, at Cost, Common Shares – 27.0 at June 30, 2014 and 27.0 at December 31, 2013 | (942) | (940) |
| Accumulated Other Comprehensive Income (Loss) | 1 | 1 |
| Total Stockholders' Equity | <u>1,767</u> | <u>1,832</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 5,337</u> | <u>\$ 5,695</u> |

See accompanying Notes to Consolidated Financial Statements

**PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

| (In Millions) | Six Months Ended June 30, | |
|---|---------------------------|--------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 85 | \$ 102 |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities: | | |
| Depreciation, Depletion and Amortization (Includes \$2 MDF Fire Impairment Loss in 2014) | 66 | 51 |
| Basis of Real Estate Sold | 31 | 42 |
| Earnings from Unconsolidated Entities | (29) | (31) |
| Distributions from Timberland Venture | 28 | 27 |
| Deferred Income Taxes | — | (1) |
| Deferred Revenue from Long-Term Gas Leases (Net of Amortization) | (2) | (4) |
| Timber Deed Acquired | — | (18) |
| Working Capital Changes | 7 | (40) |
| Other | 3 | 12 |
| Net Cash Provided By (Used In) Operating Activities | 189 | 140 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital Expenditures, Excluding Timberland Acquisitions (Includes \$4 MDF Fire Replacement Capital in 2014) | (40) | (31) |
| Timberlands Acquired | — | (78) |
| Contributions to Real Estate Development Ventures | (4) | — |
| Distributions from Real Estate Development Ventures | 1 | — |
| Net Cash Provided By (Used In) Investing Activities | (43) | (109) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends | (156) | (140) |
| Borrowings on Line of Credit | 748 | 721 |
| Repayments on Line of Credit | (1,063) | (472) |
| Principal Payments and Retirement of Long-Term Debt | — | (174) |
| Proceeds from Stock Option Exercises | 1 | 35 |
| Acquisition of Treasury Stock | (2) | (2) |
| Net Cash Provided By (Used In) Financing Activities | (472) | (32) |
| Increase (Decrease) In Cash and Cash Equivalents | (326) | (1) |
| Cash and Cash Equivalents: | | |
| Beginning of Period | 433 | 356 |
| End of Period | \$ 107 | \$ 355 |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

General. When we refer to “Plum Creek,” “the company,” “we,” “us,” or “our,” we mean Plum Creek Timber Company, Inc., a Delaware Corporation and a real estate investment trust, or “REIT,” and all of its wholly-owned consolidated subsidiaries.

The consolidated financial statements include all of the accounts of Plum Creek and its subsidiaries. At June 30, 2014, the company owned and managed approximately 6.7 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned seven wood product conversion facilities in the Northwest United States. Included in the 6.7 million acres are about 800,000 acres of higher value timberlands, which are expected to be sold and/or developed over the next fifteen years for recreational, conservation or residential purposes. Included within the 800,000 acres of higher value timberlands are approximately 600,000 acres we expect to sell for recreational uses, approximately 125,000 acres we expect to sell for conservation and approximately 75,000 acres that are identified as having development potential. In addition, the company has approximately 300,000 acres of non-strategic timberlands, which are expected to be sold in smaller acreage transactions over the near and medium term. In the meantime, all of our timberlands continue to be managed productively in our business of growing and selling timber.

Plum Creek has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code and, as such, generally does not pay corporate-level income tax. However, the company conducts certain non-REIT activities through various taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include our manufacturing operations, the harvesting and selling of logs, the development and/or sale of some of our higher value timberlands, our equity method investments in MWV-Charleston Land Partners, LLC, and our operating lease activities associated with our coal reserves. Plum Creek’s overall effective tax rate is lower than the federal statutory corporate rate due to Plum Creek’s status as a REIT.

Intercompany transactions and accounts have been eliminated in consolidation. All transactions are denominated in United States dollars.

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. The consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The audited financial statements in the company’s 2013 Annual Report on Form 10-K include a summary of significant accounting policies of the company and should be read in conjunction with this Form 10-Q. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included in this Form 10-Q. All such adjustments are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 2. Earnings Per Share

The following table sets forth the reconciliation of basic and diluted earnings per share for the **quarterly and six-month periods ended June 30** (in millions, except per share amounts):

| | Quarter Ended June 30, | |
|--|------------------------|---------|
| | 2014 | 2013 |
| Net Income Available to Common Stockholders | \$ 55 | \$ 46 |
| Denominator for Basic Earnings per Share | 177.1 | 162.9 |
| Effect of Dilutive Securities – Stock Options | 0.2 | 0.4 |
| Effect of Dilutive Securities – Restricted Stock Units and Value Management Plan | 0.1 | 0.1 |
| Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities | 177.4 | 163.4 |
| Per Share Amounts: | | |
| Net Income Per Share – Basic | \$ 0.31 | \$ 0.28 |
| Net Income Per Share – Diluted | \$ 0.31 | \$ 0.28 |
| Six Months Ended June 30, | | |
| | 2014 | 2013 |
| Net Income Available to Common Stockholders | \$ 85 | \$ 102 |
| Denominator for Basic Earnings per Share | 177.1 | 162.6 |
| Effect of Dilutive Securities – Stock Options | 0.2 | 0.4 |
| Effect of Dilutive Securities – Restricted Stock Units and Value Management Plan | 0.1 | 0.1 |
| Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities | 177.4 | 163.1 |
| Per Share Amounts: | | |
| Net Income Per Share - Basic | \$ 0.48 | \$ 0.63 |
| Net Income Per Share - Diluted | \$ 0.47 | \$ 0.62 |

Under the company's Stock Incentive Plan, the company grants restricted stock units, which prior to vesting, are entitled to non-forfeitable cash payments equal to dividends paid on the company's common shares. These awards are considered participating securities for purposes of computing basic and diluted earnings per share.

Note 3. Inventories

Inventories, accounted for using the lower of average cost or market, consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|--------------------------------|---------------|-------------------|
| Raw Materials (primarily logs) | \$ 8 | \$ 9 |
| Work-In-Process | 2 | 2 |
| Finished Goods | 27 | 30 |
| | 37 | 41 |
| Supplies | 14 | 14 |
| Total | \$ 51 | \$ 55 |

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 4. Timber and Timberlands

Timber and Timberlands consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|-------------------------------|-----------------|-------------------|
| Timber and Logging Roads, net | \$ 2,624 | \$ 2,630 |
| Timber Deeds, net | 90 | 95 |
| Timberlands | 1,456 | 1,455 |
| Timber and Timberlands, net | <u>\$ 4,170</u> | <u>\$ 4,180</u> |

Note 5. Property, Plant and Equipment

Property, Plant and Equipment consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|------------------------------------|---------------|-------------------|
| Land, Buildings and Improvements | \$ 92 | \$ 91 |
| Machinery and Equipment | 324 | 323 |
| | <u>416</u> | <u>414</u> |
| Accumulated Depreciation | (301) | (296) |
| Property, Plant and Equipment, net | <u>\$ 115</u> | <u>\$ 118</u> |

Note 6. Income Taxes

Plum Creek has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code. A REIT generally does not pay corporate-level income tax if it distributes 100% of its taxable income to shareholders and satisfies other organizational and operational requirements as set forth in the Internal Revenue Code. If a company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

Plum Creek operates as a REIT through various wholly-owned subsidiaries and a joint venture partnership. The activities of the operating partnerships and joint venture partnership consist primarily of sales of standing timber under pay-as-cut sales contracts.

Plum Creek conducts certain activities through various wholly-owned taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include the company's manufacturing operations, the harvesting and sale of logs, the development and/or sale of some of the company's higher value timberlands, our equity method investments in MWV-Charleston Land Partners, LLC, and our operating lease activities associated with our coal reserves. Plum Creek's wholly-owned taxable REIT subsidiaries file a consolidated federal income tax return.

Prior to 2011, Plum Creek was generally subject to corporate-level tax (built-in gains tax) when the company made a taxable disposition of certain properties acquired in a 2001 merger. The built-in gains tax applied to gains recognized from such asset sales to the extent that the fair value of the property exceeded its tax basis at the merger date. Built-in gains tax was generally not payable on dispositions of property to the extent the proceeds from such dispositions were reinvested in qualifying like-kind replacement property.

The company's 2008 federal income tax return is currently being audited by the Internal Revenue Service ("IRS"). The IRS has proposed an adjustment to the company's U.S. federal income tax treatment of the Timberland Venture formation transaction, which occurred on October 1, 2008, on the basis that the transfer of the timberlands to Southern Diversified Timber, LLC was a taxable transaction to the company at the time of the transfer rather than a nontaxable capital contribution to the Timberland Venture. The company has filed a protest with IRS Appeals.

If the IRS's position is upheld on administrative or judicial appeal, it could result in a maximum built-in gains tax liability of approximately \$100 million. In addition, the company could be required to accelerate the distribution to its stockholders of up to \$600 million of gain from the transaction. The company expects that as much as 80% of any such distribution could be made with

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

the company's common stock, and stockholders would be subject to tax on the distribution at the applicable capital gains tax rate. The company would also be required to pay interest, which could be substantial, and, if applicable, penalties.

We believe the transfer of the timberlands was a nontaxable contribution to the Timberland Venture and not a taxable transaction. We have not accrued income taxes for financial reporting purposes with respect to this matter and do not believe it is reasonably possible any material accrual will be made within the next twelve months. We are confident in our position and believe that the proposed re-characterization of the Timberland Venture formation transaction by the IRS will ultimately be unsuccessful. We intend to vigorously contest this re-characterization.

Note 7. Borrowings

Debt consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|---|-----------------|-------------------|
| Variable Rate Debt | | |
| Term Credit Agreement ^(A) | \$ 225 | \$ 225 |
| Revolving Line of Credit ^(B) | 152 | 467 |
| Fixed Rate Debt | | |
| Senior Notes | 1,329 | 1,329 |
| Installment Note Payable | 860 | 860 |
| Note Payable to Timberland Venture | 783 | 783 |
| Total Debt | <u>3,349</u> | <u>3,664</u> |
| Less: | | |
| Current Portion of Long-Term Debt | — | — |
| Line of Credit | 152 | 467 |
| Long-Term Portion | <u>\$ 3,197</u> | <u>\$ 3,197</u> |

(A) The company has a \$225 million term credit agreement that matures on April 3, 2019. The interest rate on the \$225 million term credit agreement was 1.65% and 1.66% as of June 30, 2014 and December 31, 2013, respectively. After giving effect to expected patronage distributions, the effective net interest rate on the term loan was approximately 1% as of both June 30, 2014 and December 31, 2013.

(B) The weighted-average interest rate for the borrowings on the line of credit was 1.36% and 1.37% as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014, we had \$152 million of borrowings and \$2 million of standby letters of credit outstanding; \$546 million remained available for borrowing under our \$700 million line of credit. As of July 1, 2014, \$105 million of the borrowings outstanding under our line of credit was repaid.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 8. Stockholders' Equity

The changes in the company's stockholders' equity accounts were as follows during **2014** (in millions):

| | Common Stock | | Paid-in Capital | Retained Earnings (Accumulated Deficit) | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Equity |
|---|--------------|---------|-----------------|---|----------------|---|--------------|
| | Shares | Dollars | | | | | |
| January 1, 2014 | 177.0 | \$ 2 | \$ 2,942 | \$ (173) | \$ (940) | \$ 1 | \$ 1,832 |
| Net Income | | | | 30 | | | 30 |
| Other Comprehensive Income (Loss) | | | | | | 1 | 1 |
| Dividends | | | | (78) | | | (78) |
| Stock Option Exercises | — | — | 1 | | | | 1 |
| Shares Issued under Stock Incentive Plans | 0.1 | — | — | | | | — |
| Share-based Compensation | | | 4 | | | | 4 |
| Common Stock Repurchased | — | — | | | (2) | | (2) |
| March 31, 2014 | 177.1 | \$ 2 | \$ 2,947 | \$ (221) | \$ (942) | \$ 2 | \$ 1,788 |
| Net Income | | | | 55 | | | 55 |
| Other Comprehensive Income (Loss) | | | | | | (1) | (1) |
| Dividends | | | | (78) | | | (78) |
| Share-based Compensation | | | 3 | | | | 3 |
| June 30, 2014 | 177.1 | \$ 2 | \$ 2,950 | \$ (244) | \$ (942) | \$ 1 | \$ 1,767 |

The changes in the company's accumulated other comprehensive income by component, net of tax, were as follows during **2014** (in millions):

| | Net Unrealized Holding Gains (Losses) | Defined Benefit Plan Actuarial Net Loss ^(A) | Gain on Cash Flow Hedge | Total |
|---|---------------------------------------|--|-------------------------|-------|
| January 1, 2014 | \$ 13 | \$ (17) | \$ 5 | \$ 1 |
| Other Comprehensive Income (Loss) before Reclassifications | 1 | — | — | 1 |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | — | — | — | — |
| March 31, 2014 | \$ 14 | \$ (17) | \$ 5 | \$ 2 |
| Other Comprehensive Income (Loss) before Reclassifications | (2) | — | — | (2) |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | — | 1 | — | 1 |
| June 30, 2014 | \$ 12 | \$ (16) | \$ 5 | \$ 1 |

(A) Amortization of actuarial gains and losses on the company's defined benefit pension plans is included in the computation of pension cost. See Note 10 of the Notes to Consolidated Financial Statements.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 9. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis. The company's fair value measurements of its cash equivalents, available-for-sale securities, and trading securities, measured on a recurring basis, are categorized as Level 1 measurements under the fair value hierarchy in the Accounting Standards Codification. A Level 1 valuation is based on quoted prices in active markets at the measurement date for identical unrestricted assets or liabilities. Summarized below are the Level 1 assets reported in the company's financial statements at fair value, measured on a recurring basis (in millions):

| | Balance at June 30, 2014 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements) |
|--|-----------------------------|--|
| Cash Equivalents ^(A) | \$ 100 | \$ 100 |
| Available-for-Sale Securities ^(B) | 41 | 41 |
| Trading Securities ^(B) | 5 | 5 |
| Total | <u>\$ 146</u> | <u>\$ 146</u> |

| | Balance at December 31, 2013 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements) |
|--|---------------------------------|--|
| Cash Equivalents ^(A) | \$ 428 | \$ 428 |
| Available-for-Sale Securities ^(B) | 40 | 40 |
| Trading Securities ^(B) | 5 | 5 |
| Total | <u>\$ 473</u> | <u>\$ 473</u> |

(A) Consists of several money market funds and is included in the \$107 million and \$433 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, respectively.

(B) Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at June 30, 2014 and December 31, 2013. At June 30, 2014, investments in these mutual funds were approximately 45% in domestic (U.S.) equities, 25% in international equities and 30% in debt securities.

Available-for-Sale Securities. Certain investments in the grantor trusts relate to the company's non-qualified pension plans and are classified as available-for-sale securities. The company has invested in various money market, debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income. The company records changes in unrealized holding gains and losses in Other Comprehensive Income, unless an other than temporary impairment has occurred, which is then charged to expense. Changes in the fair value of available-for-sale securities were not material to the company's financial position or results of operations for the quarters and six-month periods ending June 30, 2014 and June 30, 2013. As of June 30, 2014, the amortized cost of the available-for-sale securities was approximately \$28 million. See Note 8 of the Notes to Consolidated Financial Statements.

Trading Securities. Certain investments in the grantor trusts relate to the company's deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market, debt and equity mutual funds. The company plans to use these investments to fund deferred compensation obligations. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the company's Consolidated Statements of Income. Deferred compensation obligations are included in Other Liabilities and were \$5 million at both June 30, 2014 and December 31, 2013. Changes in the fair value of trading securities were not material to the company's financial position or results of operations for the quarters and six-month periods ending June 30, 2014 and June 30, 2013.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Other Instruments. The carrying amount of notes receivable approximates fair value due to the short-term maturities of these instruments. Summarized below are the carrying amount and fair value of the company's debt (estimated using the discounted cash flows method) along with the categorization under the fair value hierarchy in the Accounting Standards Codification (in millions):

| | Fair Value at June 30, 2014 | | | | Total |
|---|----------------------------------|--|---|---|-----------------|
| | Carrying Amount at June 30, 2014 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Public Debt ^(A) | \$ 1,329 | \$ — | \$ 1,395 | \$ — | \$ 1,395 |
| Term Credit Agreement ^(B) | 225 | — | 225 | — | 225 |
| Line of Credit ^(C) | 152 | — | 152 | — | 152 |
| Installment Note Payable ^(D) | 860 | — | 894 | — | 894 |
| Note Payable to Timberland Venture ^(E) | 783 | — | — | 911 | 911 |
| Total Debt | \$ 3,349 | \$ — | \$ 2,666 | \$ 911 | \$ 3,577 |

| | Fair Value at December 31, 2013 | | | | Total |
|---|--------------------------------------|--|---|---|-----------------|
| | Carrying Amount at December 31, 2013 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Public Debt ^(A) | \$ 1,329 | \$ — | \$ 1,361 | \$ — | \$ 1,361 |
| Term Credit Agreement ^(B) | 225 | — | 225 | — | 225 |
| Line of Credit ^(C) | 467 | — | 467 | — | 467 |
| Installment Note Payable ^(D) | 860 | — | 845 | — | 845 |
| Note Payable to Timberland Venture ^(E) | 783 | — | — | 916 | 916 |
| Total Debt | \$ 3,664 | \$ — | \$ 2,898 | \$ 916 | \$ 3,814 |

- (A) Fair value of the company's Public Debt (publicly issued Senior Notes) is estimated using multiple market quotes for the company's public bonds.
- (B) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable debt.
- (C) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable credit lines.
- (D) Fair value is estimated by adjusting the spread over the applicable Treasury rate to a current market quote for comparable debt.
- (E) Fair value is estimated by using market quotes for the company's Public Debt adjusted by an estimated risk premium for holding company debt and the different maturity.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the six-month periods ended June 30, 2014 and 2013.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 10. Employee Pension Plans

The components of pension cost were as follows for the **quarterly and six-month periods ended June 30** (in millions):

| | Quarter Ended June 30, | |
|--------------------------------|------------------------|-------------|
| | 2014 | 2013 |
| Service Cost | \$ 2 | \$ 2 |
| Interest Cost | 2 | 2 |
| Expected Return on Plan Assets | (3) | (2) |
| Recognized Actuarial Loss | 1 | 1 |
| Total Pension Cost | \$ 2 | \$ 3 |

| | Six Months Ended June 30, | |
|--------------------------------|---------------------------|-------------|
| | 2014 | 2013 |
| Service Cost | \$ 4 | \$ 4 |
| Interest Cost | 4 | 4 |
| Expected Return on Plan Assets | (5) | (4) |
| Recognized Actuarial Loss | 1 | 2 |
| Total Pension Cost | \$ 4 | \$ 6 |

Note 11. Commitments and Contingencies

Contingencies. The company is subject to regulations regarding forest, harvest and manufacturing practices and is, from time to time, involved in various legal proceedings, including, but not limited to, environmental and regulatory matters, incidental to its business. Reserves have been established for any probable losses. Except as discussed in Note 6, management does not believe that these matters, individually or in the aggregate, are material. However, it is possible that one or more of these matters could become material in the future, and an unfavorable outcome in one or more of these matters could have a material negative financial impact on the company. See Note 6 of the Notes to Consolidated Financial Statements for a discussion of a tax proceeding involving the company and its consolidated subsidiaries.

MDF Fire Loss and Related Insurance Recoveries. During the second quarter of 2014, the company incurred a fire loss at its Medium Density Fiberboard (“MDF”) facility. The estimated net book value of the MDF building and equipment damaged by the fire was \$2 million.

The company carries property insurance which is expected to reimburse the company for costs incurred to rebuild the damaged building and equipment along with any related lost earnings (i.e. business interruption insurance). During the second quarter of 2014, the company recognized insurance recoveries of \$4 million (the amount of costs incurred during the second quarter to rebuild the damaged building and equipment). The estimated \$2 million fire loss and related \$4 million insurance recoveries resulted in a net \$2 million gain and is included in second quarter operating income for the Manufacturing Segment and in Other Operating Income (Expense), net in the Consolidated Statements of Income.

During the second half of 2014, the company expects to recognize additional insurance recoveries ranging between \$8 million and \$12 million related to additional costs to restore the damaged building and equipment along with reimbursements for lost earnings. Insurance proceeds related to reimbursed costs to restore the damaged property will be reported when received under investing activities and insurance proceeds associated with lost earnings will be reported under operating activities in the Consolidated Statements of Cash Flows.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 12. Variable Interest Entities

Real Estate Development Ventures. The MWV-Charleston Land Partners, LLC ("MWV-CLP") is a variable interest entity. The primary activities of MWV-CLP are the active development of residential and commercial real estate on approximately 22,000 acres ("Class A Properties") and the identification, entitlement, marketing, and selling of approximately 87,000 acres of high-value rural and development-quality lands ("Class B Properties"). MWV-CLP is managed by an affiliate of MeadWestvaco Corporation ("MWV"). MWV-CLP is financed by regular capital calls from the manager of MWV-CLP in proportion to a member's ownership interest. If a member does not make a capital contribution, the member's ownership interest is diluted. The company has committed to contribute capital of \$44 million over the next seven years in connection with its interest in the Class B Properties. The company has not provided any financing for MWV-CLP other than its initial capital contribution of \$152 million during 2013 and its ongoing capital calls under the LLC agreement. Capital contributions of \$4 million were made during the six months ended June 30, 2014. The company does not intend to provide any other sources of financing for MWV-CLP. We account for our interest in MWV-CLP under the equity method of accounting.

We are not the primary beneficiary of MWV-CLP. The company considers the activities that most significantly impact the economic performance of MWV-CLP to be the day-to-day operating decisions along with the oversight responsibilities for the real estate development projects and properties. MWV has the power to direct the activities of MWV-CLP that most significantly impact its economic performance through its ability to manage the day-to-day operations of MWV-CLP. MWV also has the ability to control all management decisions associated with the 22,000 acres of the Class A Properties through its majority representation on the board of directors for the Class A Properties and its joint control of the Class B Properties due to its equal representation on the board of directors for the Class B Properties.

The carrying amount of our investment in MWV-CLP is \$139 million as of both June 30, 2014 and December 31, 2013, and is reported in the Consolidated Balance Sheets as Equity Investment in Real Estate Development Ventures. Our maximum exposure to loss is \$139 million, our carrying amount of our investment, plus any future capital contributions we elect to contribute to MWV-CLP. At a minimum, the company has agreed to make capital contributions in connection with its interest in Class B Properties of \$44 million over the next seven years. The company has a 50% ownership interest in the Class B Properties; and therefore, is entitled to 50% of the earnings or losses associated with these properties. Additionally, the company has a 5% ownership interest in the Class A Properties in which it is generally entitled to 5% of the earnings or losses associated with these properties.

Timberland Venture. In 2008, the company contributed 454,000 acres of timberlands located in its Southern Resources Segment to Southern Diversified Timber, LLC ("the Timberland Venture") in exchange for a \$705 million preferred interest and a 9% common interest valued at \$78 million. The Timberland Venture's other member, an affiliate of The Campbell Group LLC, contributed \$783 million of cash in exchange for 91% of the Timberland Venture's common interest. Following the contribution, the company borrowed \$783 million from the Timberland Venture ("Note Payable to Timberland Venture"). The company accounts for its interest in the Timberland Venture under the equity method of accounting.

The Timberland Venture is a variable interest entity. The primary operating activities of the Timberland Venture consist of owning timberlands and entering into cutting contracts with an affiliate of the other member. Besides quarterly interest payments on the Note Payable to Timberland Venture, the company has not provided financing or other support to the venture. The venture generates sufficient cash from operating activities to finance its operations.

We are not the primary beneficiary of the Timberland Venture. The company does not manage the day-to-day operations of the Timberland Venture, it has only limited protective rights and its involvement is generally limited to receiving distributions on its preferred and common interests. We are not the primary beneficiary because we do not direct the activities that most significantly impact the Timberland Venture's economic performance. We believe that the activities that most significantly impact the Timberland Venture's economic performance include managing the timberlands along with the timing and extent of the harvesting activities, neither of which we control.

The carrying amount of the investment is \$215 million at June 30, 2014 and \$211 million at December 31, 2013, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. Our maximum exposure to loss is \$215 million, the carrying amount of the investment. Generally, losses are first allocated among the common interests based on positive capital accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest (\$705 million) until the common interests have absorbed losses of approximately \$861 million.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 13. Summarized Income Statement Information of the Timberland Venture

The earnings of the Timberland Venture are a significant component of consolidated earnings. See Note 12 of the Notes to Consolidated Financial Statements. Equity earnings for the Timberland Venture were \$32 million for the six-month period ending June 30, 2014, and were \$31 million for the six-month period ending June 30, 2013. Equity earnings includes the amortization of the difference between the book value of the company's investment and its proportionate share of the Timberland Venture's net assets of \$4 million for each of the six-month periods ended June 30, 2014 and 2013, respectively. Furthermore, interest expense in connection with the loan from the Timberland Venture was \$29 million for each of the six-month periods ended June 30, 2014 and 2013. The table below presents summarized income statement information for the Timberland Venture (in millions):

| | Six Months Ended June 30, | |
|--|----------------------------------|--------------|
| | 2014 | 2013 |
| Revenues | \$ 10 | \$ 8 |
| Cost of Goods Sold ^(A) | 9 | 7 |
| Selling, General and Administrative Expenses | 2 | 3 |
| Operating Income (Loss) | (1) | (2) |
| Interest Income, net | 29 | 29 |
| Net Income before Allocation to Preferred and Common Interests | \$ 28 | \$ 27 |

- (A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$8 million and \$7 million for the six-month periods ended June 30, 2014 and 2013, respectively.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 14. Segment Information

The tables below present information about reported segments for the **quarterly and six-month periods ended June 30** (in millions):

| | Northern Resources | Southern Resources | Real Estate | Manufacturing ^(A) | Energy and Natural Resources | Other ^(B) | Total ^(C) |
|--|-----------------------|-----------------------|----------------|------------------------------|------------------------------------|----------------------|----------------------|
| Quarter Ended June 30, 2014 | | | | | | | |
| External Revenues | \$ 44 | \$ 127 | \$ 77 | \$ 94 | \$ 9 | \$ 5 | \$ 356 |
| Intersegment Revenues | 6 | — | — | — | — | — | 6 |
| Depreciation, Depletion and Amortization | 6 | 19 | — | 6 | 2 | — | 33 |
| Basis of Real Estate Sold | — | — | 25 | — | — | — | 25 |
| Other Operating Gain | — | — | — | 2 | — | — | 2 |
| Equity Loss ^(D) | — | — | — | — | — | (2) | (2) |
| Operating Income (Loss) | 5 | 33 | 45 | 10 | 6 | (3) | 96 |

Quarter Ended June 30, 2013

| | | | | | | | |
|--|-------|-------|-------|-------|------|------|--------|
| External Revenues | \$ 48 | \$ 98 | \$ 53 | \$ 99 | \$ 5 | \$ — | \$ 303 |
| Intersegment Revenues | 5 | — | — | — | — | — | 5 |
| Depreciation, Depletion and Amortization | 5 | 14 | — | 4 | 1 | — | 24 |
| Basis of Real Estate Sold | — | — | 17 | — | — | — | 17 |
| Other Operating Gain | — | — | — | — | — | — | — |
| Equity Loss ^(D) | — | — | — | — | — | — | — |
| Operating Income (Loss) | 8 | 23 | 30 | 14 | 4 | — | 79 |

| | Northern Resources | Southern Resources | Real Estate | Manufacturing ^(A) | Energy and Natural Resources | Other ^(B) | Total ^(C) |
|--|-----------------------|-----------------------|----------------|------------------------------|------------------------------------|----------------------|----------------------|
| Six Months Ended June 30, 2014 | | | | | | | |
| External Revenues | \$ 113 | \$ 250 | \$ 100 | \$ 184 | \$ 18 | \$ 8 | \$ 673 |
| Intersegment Revenues | 14 | — | — | — | — | — | 14 |
| Depreciation, Depletion and Amortization | 14 | 37 | — | 9 | 4 | — | 64 |
| Basis of Real Estate Sold | — | — | 31 | — | — | — | 31 |
| Other Operating Gain | — | — | — | 2 | — | — | 2 |
| Equity Loss ^(D) | — | — | — | — | — | (3) | (3) |
| Operating Income | 21 | 64 | 57 | 19 | 12 | (4) | 169 |

Six Months Ended June 30, 2013

| | | | | | | | |
|--|--------|--------|--------|--------|-------|------|--------|
| External Revenues | \$ 114 | \$ 202 | \$ 131 | \$ 185 | \$ 11 | \$ — | \$ 643 |
| Intersegment Revenues | 13 | — | — | — | — | — | 13 |
| Depreciation, Depletion and Amortization | 12 | 28 | — | 8 | 1 | — | 49 |
| Basis of Real Estate Sold | — | — | 42 | — | — | — | 42 |
| Other Operating Gain | — | — | — | — | — | — | — |
| Equity Loss ^(D) | — | — | — | — | — | — | — |
| Operating Income | 19 | 47 | 75 | 24 | 9 | — | 174 |

- (A) During the second quarter of 2014, the company experienced a fire at its MDF facility. The company recorded a \$2 million loss representing the net book value of the building and equipment damaged or destroyed by the fire. During the second quarter of 2014, the company also recorded a \$4 million gain related to partial insurance recoveries the company

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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expects to receive. The amount of insurance recoveries was based on the costs incurred during the second quarter to rebuild or replace the damaged building and equipment. Substantially all of these costs were capitalized during the second quarter of 2014. Both the building and equipment loss and the insurance recoveries are reported as Other Operating Gain in the Manufacturing Segment and are included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

- (B) The Other Segment includes revenue and expenses associated with our new business of providing timber and wood-fiber procurement services, along with equity earnings (losses) associated with our investments in real estate development ventures. There were no similar activities in 2013.
- (C) Consolidated depreciation, depletion and amortization includes unallocated corporate expense of \$1 million for each of the quarterly periods ended June 30, 2014 and June 30, 2013, respectively, and includes \$2 million for each of the six-month periods ended June 30, 2014 and June 30, 2013, respectively.
- (D) For Segment reporting, Equity Loss from Real Estate Development Ventures of \$2 million and \$0 for the quarterly periods ended June 30, 2014 and June 30, 2013, respectively, and Equity Loss from Real Estate Development Ventures of \$3 million and \$0 for the six-month periods ended June 30, 2014 and June 30, 2013, respectively, are included in Operating Income (Loss) for the Other Segment.

A reconciliation of total segment operating income to income before income taxes is presented below for the **quarterly and six-month periods ended June 30** (in millions):

| | Quarter Ended June 30, | |
|---|------------------------|--------------|
| | 2014 | 2013 |
| Total Segment Operating Income (from table above) | \$ 96 | \$ 79 |
| Corporate and Other Unallocated Expenses | (17) | (18) |
| Other Unallocated Operating Income (Expense), net | 1 | 1 |
| Equity Earnings from Timberland Venture | 17 | 17 |
| Total Interest Expense, net | (42) | (35) |
| Income before Income Taxes | <u>\$ 55</u> | <u>\$ 44</u> |

| | Six Months Ended June 30, | |
|---|---------------------------|---------------|
| | 2014 | 2013 |
| Total Segment Operating Income (from table above) | \$ 169 | \$ 174 |
| Corporate and Other Unallocated Expenses | (35) | (35) |
| Other Unallocated Operating Income (Expense), net | 2 | 1 |
| Equity Earnings from Timberland Venture | 32 | 31 |
| Total Interest Expense, net | (83) | (70) |
| Income before Income Taxes | <u>\$ 85</u> | <u>\$ 101</u> |

Note 15. Subsequent Events

Quarterly Dividend. On August 4, 2014, the Board of Directors authorized the company to make a dividend payment of \$0.44 per share, or approximately \$78 million, which will be paid on August 29, 2014 to stockholders of record on August 15, 2014.

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

Included in this item are the consolidated financial statements related to Plum Creek Timberlands, L.P., a Delaware Limited Partnership and a wholly-owned subsidiary of Plum Creek Timber Company, Inc. These financial statements are provided pursuant to Rule 3-10 of Regulation S-X in connection with the shelf registration statement on Form S-3 filed in December of 2011 pursuant to which Plum Creek Timberlands, L.P. has registered and from time to time may offer and sell debt securities. As of June 30, 2014, Plum Creek Timberlands, L.P. has publicly issued and outstanding \$1,333 million aggregate principal amount of Senior Notes ("Public Debt") pursuant to the shelf registration statement.

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| (In Millions) | Quarter Ended June 30, | |
|--|------------------------|--------------|
| | 2014 | 2013 |
| REVENUES: | | |
| Timber | \$ 171 | \$ 146 |
| Real Estate | 77 | 53 |
| Manufacturing | 94 | 99 |
| Energy and Natural Resources | 9 | 5 |
| Other | 5 | — |
| Total Revenues | <u>356</u> | <u>303</u> |
| COSTS AND EXPENSES: | | |
| Cost of Goods Sold: | | |
| Timber | 125 | 108 |
| Real Estate | 30 | 22 |
| Manufacturing | 84 | 82 |
| Energy and Natural Resources | 3 | 1 |
| Other | 5 | — |
| Total Cost of Goods Sold | <u>247</u> | <u>213</u> |
| Selling, General and Administrative | 30 | 29 |
| Total Costs and Expenses | <u>277</u> | <u>242</u> |
| Other Operating Income (Expense), net | 3 | 1 |
| Operating Income | 82 | 62 |
| Earnings from Unconsolidated Entities | 15 | 17 |
| Interest Expense, net | 27 | 20 |
| Income before Income Taxes | 70 | 59 |
| Provision (Benefit) for Income Taxes | — | (2) |
| Net Income before Allocation to Series T-1 Preferred Interest and Partners | 70 | 61 |
| Net Income Allocable to Series T-1 Preferred Interest | (15) | (15) |
| Net Income Available to Common Interest Partners | <u>\$ 55</u> | <u>\$ 46</u> |
| SUPPLEMENTAL INCOME STATEMENT INFORMATION: | | |
| Equity Earnings from Timberland Venture | \$ 17 | \$ 17 |
| Equity Loss from Real Estate Development Ventures | (2) | — |
| Earnings from Unconsolidated Entities | <u>\$ 15</u> | <u>\$ 17</u> |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| (In Millions) | Six Months Ended June 30, | |
|--|---------------------------|--------|
| | 2014 | 2013 |
| REVENUES: | | |
| Timber | \$ 363 | \$ 316 |
| Real Estate | 100 | 131 |
| Manufacturing | 184 | 185 |
| Energy and Natural Resources | 18 | 11 |
| Other | 8 | — |
| Total Revenues | 673 | 643 |
| COSTS AND EXPENSES: | | |
| Cost of Goods Sold: | | |
| Timber | 263 | 232 |
| Real Estate | 40 | 52 |
| Manufacturing | 163 | 157 |
| Energy and Natural Resources | 5 | 2 |
| Other | 8 | — |
| Total Cost of Goods Sold | 479 | 443 |
| Selling, General and Administrative | 59 | 61 |
| Total Costs and Expenses | 538 | 504 |
| Other Operating Income (Expense), net | 4 | 1 |
| Operating Income | 139 | 140 |
| Earnings from Unconsolidated Entities | 29 | 31 |
| Interest Expense, net | 54 | 41 |
| Income before Income Taxes | 114 | 130 |
| Provision (Benefit) for Income Taxes | — | (1) |
| Net Income before Allocation to Series T-1 Preferred Interest and Partners | 114 | 131 |
| Net Income Allocable to Series T-1 Preferred Interest | (29) | (29) |
| Net Income Available to Common Interest Partners | \$ 85 | \$ 102 |
| SUPPLEMENTAL INCOME STATEMENT INFORMATION: | | |
| Equity Earnings from Timberland Venture | \$ 32 | \$ 31 |
| Equity Loss from Real Estate Development Ventures | (3) | — |
| Earnings from Unconsolidated Entities | \$ 29 | \$ 31 |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| (In Millions) | Quarter Ended June 30, | |
|---|------------------------|--------------|
| | 2014 | 2013 |
| NET INCOME BEFORE ALLOCATION TO SERIES T-1 PREFERRED INTEREST AND PARTNERS | \$ 70 | \$ 61 |
| OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES: | | |
| Defined Benefit Pension Plans: | | |
| Amortization of Actuarial Loss Reclassified to Pension Expense | 1 | 1 |
| Unrealized Gains (Losses) on Grantor Trust Assets: | | |
| Unrealized Holding Gains (Losses) Arising During Period | (2) | 1 |
| Other Comprehensive Income (Loss) Before Tax | (1) | 2 |
| Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income | — | — |
| Other Comprehensive Income (Loss) After Tax | (1) | 2 |
| Comprehensive Income | \$ 69 | \$ 63 |

| (In Millions) | Six Months Ended June 30, | |
|---|---------------------------|---------------|
| | 2014 | 2013 |
| NET INCOME BEFORE ALLOCATION TO SERIES T-1 PREFERRED INTEREST AND PARTNERS | \$ 114 | \$ 131 |
| OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES: | | |
| Defined Benefit Pension Plans: | | |
| Amortization of Actuarial Loss Reclassified to Pension Expense | 1 | 2 |
| Unrealized Gains (Losses) on Grantor Trust Assets: | | |
| Unrealized Holding Gains (Losses) Arising During Period | (1) | 3 |
| Other Comprehensive Income (Loss) Before Tax | — | 5 |
| Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income | — | — |
| Other Comprehensive Income (Loss) After Tax | — | 5 |
| Comprehensive Income | \$ 114 | \$ 136 |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| (In Millions) | June 30, 2014 | December 31, 2013 |
|---|------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 107 | \$ 433 |
| Accounts Receivable | 44 | 29 |
| Inventories | 51 | 55 |
| Deferred Tax Asset | 6 | 9 |
| Assets Held for Sale | 55 | 92 |
| Other Current Assets | 20 | 15 |
| | <u>283</u> | <u>633</u> |
| Timber and Timberlands, net | 4,170 | 4,180 |
| Minerals and Mineral Rights, net | 294 | 298 |
| Property, Plant and Equipment, net | 115 | 118 |
| Equity Investment in Timberland Venture | 215 | 211 |
| Equity Investment in Real Estate Development Ventures | 139 | 139 |
| Deferred Tax Asset | 20 | 17 |
| Investment in Grantor Trusts (\$46 and \$45 at Fair Value in 2014 and 2013) | 47 | 46 |
| Other Assets | 55 | 54 |
| Total Assets | <u>\$ 5,338</u> | <u>\$ 5,696</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Current Portion of Long-Term Debt | \$ — | \$ — |
| Line of Credit | 152 | 467 |
| Accounts Payable | 36 | 24 |
| Interest Payable | 19 | 15 |
| Wages Payable | 17 | 29 |
| Taxes Payable | 14 | 10 |
| Deferred Revenue | 36 | 26 |
| Other Current Liabilities | 11 | 10 |
| | <u>285</u> | <u>581</u> |
| Long-Term Debt | 2,414 | 2,414 |
| Other Liabilities | 82 | 79 |
| Total Liabilities | <u>2,781</u> | <u>3,074</u> |
| Commitments and Contingencies | | |
| PARTNERSHIP CAPITAL | | |
| Series T-1 Preferred Interest | 790 | 790 |
| Partners' Capital (Common Partnership Interests) | 1,767 | 1,832 |
| Total Partnership Capital | <u>2,557</u> | <u>2,622</u> |
| Total Liabilities and Partnership Capital | <u>\$ 5,338</u> | <u>\$ 5,696</u> |

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| (In Millions) | Six Months Ended June 30, | |
|---|---------------------------|--------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income before Allocation to Series T-1 Preferred Interest and Partners | \$ 114 | \$ 131 |
| Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities: | | |
| Depreciation, Depletion and Amortization (Includes \$2 MDF Fire Impairment Loss in 2014) | 66 | 51 |
| Basis of Real Estate Sold | 31 | 42 |
| Earnings from Unconsolidated Entities | (29) | (31) |
| Distributions from Timberland Venture | 28 | 27 |
| Deferred Income Taxes | — | (1) |
| Deferred Revenue from Long-Term Gas Leases (Net of Amortization) | (2) | (4) |
| Timber Deed Acquired | — | (18) |
| Working Capital Changes | 7 | (40) |
| Other | 3 | 12 |
| Net Cash Provided By (Used In) Operating Activities | 218 | 169 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital Expenditures, Excluding Timberland Acquisitions (Includes \$4 MDF Fire Replacement Capital in 2014) | (40) | (31) |
| Timberlands Acquired | — | (78) |
| Contributions to Real Estate Development Ventures | (4) | — |
| Distributions from Real Estate Development Ventures | 1 | — |
| Net Cash Provided By (Used In) Investing Activities | (43) | (109) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash Distributions to Common Partners | (157) | (107) |
| Cash Distributions for Series T-1 Preferred Interest | (29) | (29) |
| Borrowings on Line of Credit | 748 | 721 |
| Repayments on Line of Credit | (1,063) | (472) |
| Principal Payments and Retirement of Long-Term Debt | — | (174) |
| Net Cash Provided By (Used In) Financing Activities | (501) | (61) |
| Increase (Decrease) In Cash and Cash Equivalents | (326) | (1) |
| Cash and Cash Equivalents: | | |
| Beginning of Period | 433 | 356 |
| End of Period | \$ 107 | \$ 355 |

See accompanying Notes to Consolidated Financial Statements

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Note 1. Basis of Presentation

General. Plum Creek Timberlands, L.P. is a Delaware Limited Partnership and a wholly-owned subsidiary of Plum Creek Timber Company, Inc. (“Parent”), a Delaware Corporation and a real estate investment trust, or “REIT.” References herein to “the Operating Partnership,” “we,” “us,” or “our” relate to Plum Creek Timberlands, L.P. and all of its wholly-owned consolidated subsidiaries; references to “Plum Creek” or “Parent” relate to Plum Creek Timber Company, Inc. and all of its wholly-owned consolidated subsidiaries.

At June 30, 2014, the Operating Partnership owned and managed approximately 6.7 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned seven wood product conversion facilities in the Northwest United States. Included in the 6.7 million acres are about 800,000 acres of higher value timberlands, which are expected to be sold and/or developed over the next fifteen years for recreational, conservation or residential purposes. Included within the 800,000 acres of higher value timberlands are approximately 600,000 acres we expect to sell for recreational uses, approximately 125,000 acres we expect to sell for conservation and approximately 75,000 acres that are identified as having development potential. In addition, the Operating Partnership has approximately 300,000 acres of non-strategic timberlands, which are expected to be sold in smaller acreage transactions over the near and medium term. In the meantime, all of our timberlands continue to be managed productively in our business of growing and selling timber.

The consolidated financial statements of the Operating Partnership include the accounts of Plum Creek Timberlands, L.P. and its subsidiaries. The Operating Partnership is 100% owned by Plum Creek. Plum Creek has no assets or liabilities other than its direct and indirect ownership interests in Plum Creek Timberlands, L.P. and its interest in Plum Creek Ventures I, LLC (“PC Ventures”), a 100% owned subsidiary of Plum Creek. The Parent has no operations other than its investment in these subsidiaries and transactions in its own equity, such as the issuance and/or repurchase of common stock and the receipt of proceeds from stock option exercises. Intercompany transactions and accounts between Plum Creek Timberlands, L.P. and its subsidiaries have been eliminated in consolidation. All transactions are denominated in United States dollars.

Plum Creek Timber Company, Inc. has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code and, as such, generally does not pay corporate-level income tax. However, the Operating Partnership conducts certain non-REIT activities through various wholly-owned taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include our manufacturing operations, the harvesting and selling of logs, the development and/or sale of some of our higher value timberlands, our equity method investments in MWV-Charleston Land Partners, LLC, and our operating lease activities associated with our coal reserves. The Operating Partnership’s tax provision includes the tax expense and/or benefit associated with Plum Creek’s taxable REIT subsidiaries, as well as any tax expense and/or benefit incurred by the REIT. The effective tax rate for the Operating Partnership is lower than the federal statutory corporate rate due to Plum Creek’s status as a REIT.

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. These interim consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements of Plum Creek Timberlands, L.P. for the three years ended December 31, 2013, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 28, 2014, and which include a summary of significant accounting policies of the Operating Partnership. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included in this Form 10-Q. All such adjustments are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

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Note 2. Inventories

Inventories, accounted for using the lower of average cost or market, consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|--------------------------------|---------------|-------------------|
| Raw Materials (primarily logs) | \$ 8 | \$ 9 |
| Work-In-Process | 2 | 2 |
| Finished Goods | 27 | 30 |
| | <u>37</u> | <u>41</u> |
| Supplies | 14 | 14 |
| Total | <u>\$ 51</u> | <u>\$ 55</u> |

Note 3. Timber and Timberlands

Timber and Timberlands consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|-------------------------------|-----------------|-------------------|
| Timber and Logging Roads, net | \$ 2,624 | \$ 2,630 |
| Timber Deeds, net | 90 | 95 |
| Timberlands | 1,456 | 1,455 |
| Timber and Timberlands, net | <u>\$ 4,170</u> | <u>\$ 4,180</u> |

Note 4. Property, Plant and Equipment

Property, Plant and Equipment consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|------------------------------------|---------------|-------------------|
| Land, Buildings and Improvements | \$ 92 | \$ 91 |
| Machinery and Equipment | 324 | 323 |
| | <u>416</u> | <u>414</u> |
| Accumulated Depreciation | (301) | (296) |
| Property, Plant and Equipment, net | <u>\$ 115</u> | <u>\$ 118</u> |

Note 5. Income Taxes

Plum Creek Timberlands, L.P. is a wholly-owned limited partnership and therefore, not subject to income tax. Plum Creek Timberlands, L.P.'s taxable income is allocated 100% (directly and indirectly) to its parent, Plum Creek Timber Company, Inc., which has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code. A REIT generally does not pay corporate-level income tax if it distributes 100% of its taxable income to shareholders and satisfies other organizational and operational requirements as set forth in the Internal Revenue Code. If a company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

Plum Creek operates as a REIT through various wholly-owned subsidiaries and a joint venture partnership. The activities of the operating partnerships and joint venture partnership consist primarily of sales of standing timber under pay-as-cut sales contracts.

Plum Creek conducts certain activities through various wholly-owned taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include the Operating Partnership's manufacturing operations, the harvesting and sale of logs, the development and/or sale of some of its higher value timberlands, its equity method investments in MWV-Charleston Land

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Partners, LLC, and its operating lease activities associated with its coal reserves. Plum Creek's wholly-owned taxable REIT subsidiaries file a consolidated federal income tax return.

Prior to 2011, Plum Creek was generally subject to corporate-level tax (built-in gains tax) when the company made a taxable disposition of certain properties acquired in a 2001 merger. The built-in gains tax applied to gains recognized from such asset sales to the extent that the fair value of the property exceeded its tax basis at the merger date. Built-in gains tax was generally not payable on dispositions of property to the extent the proceeds from such dispositions were reinvested in qualifying like-kind replacement property.

Plum Creek's 2008 federal income tax return is currently being audited by the Internal Revenue Service ("IRS"). The IRS has proposed an adjustment to Plum Creek's U.S. federal income tax treatment of the Timberland Venture formation transaction, which occurred on October 1, 2008, on the basis that the transfer of the timberlands to Southern Diversified Timber, LLC was a taxable transaction to Plum Creek at the time of the transfer rather than a nontaxable capital contribution to the Timberland Venture. Plum Creek has filed a protest with IRS Appeals.

If the IRS's position is upheld on administrative or judicial appeal, it could result in a maximum built-in gains tax liability of approximately \$100 million. In addition, Plum Creek could be required to accelerate the distribution to its stockholders of up to \$600 million of gain from the transaction. Plum Creek expects that as much as 80% of any such distribution could be made with Plum Creek's common stock, and stockholders would be subject to tax on the distribution at the applicable capital gains tax rate. Plum Creek would also be required to pay interest, which could be substantial, and, if applicable, penalties.

We believe the transfer of the timberlands was a nontaxable contribution to the Timberland Venture and not a taxable transaction. We have not accrued income taxes for financial reporting purposes with respect to this matter and do not believe it is reasonably possible any material accrual will be made within the next twelve months. We are confident in our position and believe that the proposed re-characterization of the Timberland Venture formation transaction by the IRS will ultimately be unsuccessful. We intend to vigorously contest this re-characterization.

Note 6. Borrowings

Debt consisted of the following (in millions):

| | June 30, 2014 | December 31, 2013 |
|---|-----------------|-------------------|
| Variable Rate Debt | | |
| Term Credit Agreement ^(A) | \$ 225 | \$ 225 |
| Revolving Line of Credit ^(B) | 152 | 467 |
| Fixed Rate Debt | | |
| Senior Notes | 1,329 | 1,329 |
| Installment Note Payable | 860 | 860 |
| Total Debt | 2,566 | 2,881 |
| Less: | | |
| Current Portion of Long-Term Debt | — | — |
| Line of Credit | 152 | 467 |
| Long-Term Portion | \$ 2,414 | \$ 2,414 |

(A) The Operating Partnership has a \$225 million term credit agreement that matures on April 3, 2019. The interest rate on the \$225 million term credit agreement was 1.65% and 1.66% as of June 30, 2014 and December 31, 2013, respectively. After giving effect to expected patronage distributions, the effective net interest rate on the term loan was approximately 1% as of both June 30, 2014 and December 31, 2013.

(B) The weighted-average interest rate for the borrowings on the line of credit was 1.36% and 1.37% as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014, we had \$152 million of borrowings and \$2 million of standby letters of credit outstanding; \$546 million remained available for borrowing under our \$700 million line of credit. As of July 1, 2014, \$105 million of the borrowings outstanding under our line of credit was repaid.

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Note 7. Partners' Capital

The changes in the Operating Partnership's capital accounts were as follows during 2014 (in millions):

| | Preferred Partnership Interest | Common Partners' Capital | Accumulated Other Comprehensive Income (Loss) | Total Partnership Capital |
|--|--------------------------------------|--------------------------------|--|---------------------------------|
| January 1, 2014 | \$ 790 | \$ 1,831 | \$ 1 | \$ 2,622 |
| Net Income before Allocation to Series T-1 Preferred Interest and Partners | | 44 | | 44 |
| Other Comprehensive Income (Loss) | | | 1 | 1 |
| Net Income Allocation to Series T-1 Preferred Interest | 14 | (14) | | — |
| Distributions to Partners (Common Partnership Interests) | | (79) | | (79) |
| Distributions for Series T-1 Preferred Interest | (14) | | | (14) |
| Capital Contributions from Parent | | 4 | | 4 |
| March 31, 2014 | \$ 790 | \$ 1,786 | \$ 2 | \$ 2,578 |
| Net Income before Allocation to Series T-1 Preferred Interest and Partners | | 70 | | 70 |
| Other Comprehensive Income (Loss) | | | (1) | (1) |
| Net Income Allocation to Series T-1 Preferred Interest | 15 | (15) | | — |
| Distributions to Partners (Common Partnership Interests) | | (78) | | (78) |
| Distributions for Series T-1 Preferred Interest | (15) | | | (15) |
| Capital Contributions from Parent | | 3 | | 3 |
| June 30, 2014 | <u>\$ 790</u> | <u>\$ 1,766</u> | <u>\$ 1</u> | <u>\$ 2,557</u> |

The changes in the Operating Partnership's accumulated other comprehensive income by component, net of tax, were as follows during 2014 (in millions):

| | Net Unrealized Holding Gains (Losses) | Defined Benefit Plan Actuarial Net Loss ^(A) | Gain on Cash Flow Hedge | Total |
|---|---|--|----------------------------|-------------|
| January 1, 2014 | \$ 13 | \$ (17) | \$ 5 | \$ 1 |
| Other Comprehensive Income (Loss) before Reclassifications | 1 | — | — | 1 |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | — | — | — | — |
| March 31, 2014 | \$ 14 | \$ (17) | \$ 5 | \$ 2 |
| Other Comprehensive Income (Loss) before Reclassifications | (2) | — | — | (2) |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | — | 1 | — | 1 |
| June 30, 2014 | <u>\$ 12</u> | <u>\$ (16)</u> | <u>\$ 5</u> | <u>\$ 1</u> |

(A) Amortization of actuarial gains and losses on the company's defined benefit pension plans is included in the computation of pension cost. See Note 9 of the Notes to Consolidated Financial Statements.

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Note 8. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis. The Operating Partnership's fair value measurements of its cash equivalents, available-for-sale securities, and trading securities, measured on a recurring basis, are categorized as Level 1 measurements under the fair value hierarchy in the Accounting Standards Codification. A Level 1 valuation is based on quoted prices in active markets at the measurement date for identical unrestricted assets or liabilities. Summarized below are the Level 1 assets reported in the Operating Partnership's financial statements at fair value, measured on a recurring basis (in millions):

| | Balance at June 30, 2014 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements) |
|--|-----------------------------|--|
| Cash Equivalents ^(A) | \$ 100 | \$ 100 |
| Available-for-Sale Securities ^(B) | 41 | 41 |
| Trading Securities ^(B) | 5 | 5 |
| Total | <u>\$ 146</u> | <u>\$ 146</u> |

| | Balance at December 31, 2013 | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements) |
|--|---------------------------------|--|
| Cash Equivalents ^(A) | \$ 428 | \$ 428 |
| Available-for-Sale Securities ^(B) | 40 | 40 |
| Trading Securities ^(B) | 5 | 5 |
| Total | <u>\$ 473</u> | <u>\$ 473</u> |

(A) Consists of several money market funds and is included in the \$107 million and \$433 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, respectively.

(B) Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at June 30, 2014 and December 31, 2013. At June 30, 2014, investments in these mutual funds were approximately 45% in domestic (U.S.) equities, 25% in international equities and 30% in debt securities.

Available-for-Sale Securities. Certain investments in the grantor trusts relate to the Operating Partnership's non-qualified pension plans and are classified as available-for-sale securities. The Operating Partnership has invested in various money market, debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income. The Operating Partnership records changes in unrealized holding gains and losses in Other Comprehensive Income, unless an other than temporary impairment has occurred, which is then charged to expense. Changes in the fair value of available-for-sale securities were not material to the Operating Partnership's financial position or results of operations for the quarters and six-month periods ending June 30, 2014 and June 30, 2013. As of June 30, 2014, the amortized cost of the available-for-sale securities was approximately \$28 million. See Note 7 of the Notes to Consolidated Financial Statements.

Trading Securities. Certain investments in the grantor trusts relate to the Operating Partnership's deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market, debt and equity mutual funds. The Operating Partnership plans to use these investments to fund deferred compensation obligations. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the Operating Partnership's Consolidated Statements of Income. Deferred compensation obligations are included in Other Liabilities and were \$5 million at both June 30, 2014 and December 31, 2013. Changes in the fair value of trading securities were not material to the Operating Partnership's financial position or results of operations for the quarters and six-month periods ending June 30, 2014 and June 30, 2013.

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Other Instruments. The carrying amount of notes receivable approximates fair value due to the short-term maturities of these instruments. Summarized below are the carrying amount and fair value of the Operating Partnership's debt (estimated using the discounted cash flows method) along with the categorization under the fair value hierarchy in the Accounting Standards Codification (in millions):

| | Fair Value at June 30, 2014 | | | | Total |
|---|----------------------------------|--|---|---|-----------------|
| | Carrying Amount at June 30, 2014 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Public Debt ^(A) | \$ 1,329 | \$ — | \$ 1,395 | \$ — | \$ 1,395 |
| Term Credit Agreement ^(B) | 225 | — | 225 | — | 225 |
| Line of Credit ^(C) | 152 | — | 152 | — | 152 |
| Installment Note Payable ^(D) | 860 | — | 894 | — | 894 |
| Total Debt | \$ 2,566 | \$ — | \$ 2,666 | \$ — | \$ 2,666 |

| | Fair Value at December 31, 2013 | | | | Total |
|---|--------------------------------------|--|---|---|-----------------|
| | Carrying Amount at December 31, 2013 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Public Debt ^(A) | \$ 1,329 | \$ — | \$ 1,361 | \$ — | \$ 1,361 |
| Term Credit Agreement ^(B) | 225 | — | 225 | — | 225 |
| Line of Credit ^(C) | 467 | — | 467 | — | 467 |
| Installment Note Payable ^(D) | 860 | — | 845 | — | 845 |
| Total Debt | \$ 2,881 | \$ — | \$ 2,898 | \$ — | \$ 2,898 |

- (A) Fair value of the Operating Partnership's Public Debt (publicly issued Senior Notes) is estimated using multiple market quotes for the Operating Partnership's public bonds.
- (B) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable debt.
- (C) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable credit lines.
- (D) Fair value is estimated by adjusting the spread over the applicable Treasury rate to a current market quote for comparable debt.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the six-month periods ended June 30, 2014 and 2013.

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Note 9. Employee Pension Plans

The components of pension cost were as follows for the **quarterly and six-month periods ended June 30** (in millions):

| | Quarter Ended June 30, | |
|--------------------------------|------------------------|-------------|
| | 2014 | 2013 |
| Service Cost | \$ 2 | \$ 2 |
| Interest Cost | 2 | 2 |
| Expected Return on Plan Assets | (3) | (2) |
| Recognized Actuarial Loss | 1 | 1 |
| Total Pension Cost | \$ 2 | \$ 3 |

| | Six Months Ended June 30, | |
|--------------------------------|---------------------------|-------------|
| | 2014 | 2013 |
| Service Cost | \$ 4 | \$ 4 |
| Interest Cost | 4 | 4 |
| Expected Return on Plan Assets | (5) | (4) |
| Recognized Actuarial Loss | 1 | 2 |
| Total Pension Cost | \$ 4 | \$ 6 |

Note 10. Commitments and Contingencies

Contingencies. The Operating Partnership is subject to regulations regarding forest, harvest and manufacturing practices and is, from time to time, involved in various legal proceedings, including, but not limited to, environmental and regulatory matters, incidental to its business. Reserves have been established for any probable losses. Except as discussed in Note 5, management does not believe that these matters, individually or in the aggregate, are material. However, it is possible that one or more of these matters could become material in the future, and an unfavorable outcome in one or more of these matters could have a material negative financial impact on the Operating Partnership. See Note 5 of the Notes to Consolidated Financial Statements for a discussion of a tax proceeding involving Plum Creek.

MDF Fire Loss and Related Insurance Recoveries. During the second quarter of 2014, the Operating Partnership incurred a fire loss at its Medium Density Fiberboard (“MDF”) facility. The estimated net book value of the MDF building and equipment damaged by the fire was \$2 million.

The Operating Partnership carries property insurance which is expected to reimburse the Operating Partnership for costs incurred to rebuild the damaged building and equipment along with any related lost earnings (i.e. business interruption insurance). During the second quarter of 2014, the Operating Partnership recognized insurance recoveries of \$4 million (the amount of costs incurred during the second quarter to rebuild the damaged building and equipment). The estimated \$2 million fire loss and related \$4 million insurance recoveries resulted in a net \$2 million gain and is included in second quarter operating income for the Manufacturing Segment and in Other Operating Income (Expense), net in the Consolidated Statements of Income.

During the second half of 2014, the Operating Partnership expects to recognize additional insurance recoveries ranging between \$8 million and \$12 million related to additional costs to restore the damaged building and equipment along with reimbursements for lost earnings. Insurance proceeds related to reimbursed costs to restore the damaged property will be reported when received under investing activities and insurance proceeds associated with lost earnings will be reported under operating activities in the Consolidated Statements of Cash Flows.

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Note 11. Variable Interest Entities

Real Estate Development Ventures. The MWV-Charleston Land Partners, LLC ("MWV-CLP") is a variable interest entity. The primary activities of MWV-CLP are the active development of residential and commercial real estate on approximately 22,000 acres ("Class A Properties") and the identification, entitlement, marketing, and selling of approximately 87,000 acres of high-value rural and development-quality lands ("Class B Properties"). MWV-CLP is managed by an affiliate of MeadWestvaco Corporation ("MWV"). MWV-CLP is financed by regular capital calls from the manager of MWV-CLP in proportion to a member's ownership interest. If a member does not make a capital contribution, the member's ownership interest is diluted. The Operating Partnership has committed to contribute capital of \$44 million over the next seven years in connection with its interest in the Class B Properties. The Operating Partnership has not provided any financing for MWV-CLP other than its initial capital contribution of \$152 million during 2013 and its ongoing capital calls under the LLC agreement. Capital contributions of \$4 million were made during the six months ended June 30, 2014. The Operating Partnership does not intend to provide any other sources of financing for MWV-CLP. The Operating Partnership accounts for its interest in MWV-CLP under the equity method of accounting.

The Operating Partnership is not the primary beneficiary of MWV-CLP. The Operating Partnership considers the activities that most significantly impact the economic performance of MWV-CLP to be the day-to-day operating decisions along with the oversight responsibilities for the real estate development projects and properties. MWV has the power to direct the activities of MWV-CLP that most significantly impact its economic performance through its ability to manage the day-to-day operations of MWV-CLP. MWV also has the ability to control all management decisions associated with the 22,000 acres of the Class A Properties through its majority representation on the board of directors for the Class A Properties and its joint control of the Class B Properties due to its equal representation on the board of directors for the Class B Properties.

The carrying amount of our investment in MWV-CLP is \$139 million as of both June 30, 2014 and December 31, 2013, and is reported in the Consolidated Balance Sheets as Equity Investment in Real Estate Development Ventures. Our maximum exposure to loss is \$139 million, our carrying amount of our investment, plus any future capital contributions we elect to contribute to MWV-CLP. At a minimum, the Operating Partnership has agreed to make capital contributions in connection with its interest in Class B Properties of \$44 million over the next seven years. The Operating Partnership has a 50% ownership interest in the Class B Properties; and therefore, is entitled to 50% of the earnings or losses associated with these properties. Additionally, the Operating Partnership has a 5% ownership interest in the Class A Properties in which it is generally entitled to 5% of the earnings or losses associated with these properties.

Timberland Venture. In 2008, a subsidiary of the Operating Partnership, Plum Creek Timber Operations I, LLC ("PC Member"), contributed 454,000 acres of timberlands located in its Southern Resources Segment to Southern Diversified Timber, LLC ("the Timberland Venture") in exchange for a \$705 million preferred interest and a 9% common interest valued at \$78 million. The Timberland Venture's other member, an affiliate of The Campbell Group LLC, contributed \$783 million of cash in exchange for 91% of the Timberland Venture's common interest. Following the formation of the Timberland Venture, Plum Creek Ventures I, LLC ("PC Ventures"), a 100% wholly-owned subsidiary of Plum Creek Timber Company, Inc., borrowed \$783 million from the Timberland Venture. PC Ventures used the proceeds from the borrowing to make a \$783 million capital contribution to the Operating Partnership. The Operating Partnership accounts for its interest in the Timberland Venture under the equity method of accounting.

The Timberland Venture is a variable interest entity. The primary operating activities of the Timberland Venture consist of owning timberlands and entering into cutting contracts with an affiliate of the other member. Besides quarterly distributions to PC Ventures which it uses to fund interest payments on the loan owed by PC Ventures, the Operating Partnership has not provided financing or other support to the venture. The venture generates sufficient cash from operating activities to finance its operations.

We are not the primary beneficiary of the Timberland Venture. PC Member does not manage the day-to-day operations of the Timberland Venture, it has only limited protective rights and its involvement is generally limited to receiving distributions on its preferred and common interests. We are not the primary beneficiary because we do not direct the activities that most significantly impact the Timberland Venture's economic performance. We believe that the activities that most significantly impact the Timberland Venture's economic performance include managing the timberlands along with the timing and extent of the harvesting activities, neither of which we control.

The carrying amount of the investment is \$215 million at June 30, 2014 and \$211 million at December 31, 2013, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. Our maximum exposure to loss is \$215 million, the carrying amount of the investment. Generally, losses are first allocated among the common interests based on positive capital

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accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest (\$705 million) until the common interests have absorbed losses of approximately \$861 million.

Note 12. Summarized Income Statement Information of the Timberland Venture

The earnings of the Timberland Venture are a significant component of consolidated earnings. See Note 11 of the Notes to Consolidated Financial Statements. Equity earnings for the Timberland Venture were \$32 million for the six-month period ending June 30, 2014, and were \$31 million for the six-month period ending June 30, 2013. Equity earnings includes the amortization of the difference between the book value of the Operating Partnership's investment and its proportionate share of the Timberland Venture's net assets of \$4 million for each of the six-month periods ended June 30, 2014 and 2013, respectively. The table below presents summarized income statement information for the Timberland Venture (in millions):

| | <u>Six Months Ended June 30,</u> | |
|--|----------------------------------|--------------|
| | <u>2014</u> | <u>2013</u> |
| Revenues | <u>\$ 10</u> | <u>\$ 8</u> |
| Cost of Goods Sold ^(A) | <u>9</u> | <u>7</u> |
| Selling, General and Administrative Expenses | <u>2</u> | <u>3</u> |
| Operating Income (Loss) | <u>(1)</u> | <u>(2)</u> |
| Interest Income, net | <u>29</u> | <u>29</u> |
| Net Income before Allocation to Preferred and Common Interests | <u>\$ 28</u> | <u>\$ 27</u> |

- (A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$8 million and \$7 million for the six-month periods ended June 30, 2014 and 2013, respectively.

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Note 13. Segment Information

The tables below present information about reported segments for the **quarterly and six-month periods ended June 30** (in millions):

| | Northern Resources | Southern Resources | Real Estate | Manufacturing ^(A) | Energy and Natural Resources | Other ^(B) | Total ^(C) |
|--|-----------------------|-----------------------|----------------|------------------------------|------------------------------------|----------------------|----------------------|
| Quarter Ended June 30, 2014 | | | | | | | |
| External Revenues | \$ 44 | \$ 127 | \$ 77 | \$ 94 | \$ 9 | \$ 5 | \$ 356 |
| Intersegment Revenues | 6 | — | — | — | — | — | 6 |
| Depreciation, Depletion and Amortization | 6 | 19 | — | 6 | 2 | — | 33 |
| Basis of Real Estate Sold | — | — | 25 | — | — | — | 25 |
| Other Operating Gain | — | — | — | 2 | — | — | 2 |
| Equity Loss ^(D) | — | — | — | — | — | (2) | (2) |
| Operating Income (Loss) | 5 | 33 | 45 | 10 | 6 | (3) | 96 |
| Quarter Ended June 30, 2013 | | | | | | | |
| External Revenues | \$ 48 | \$ 98 | \$ 53 | \$ 99 | \$ 5 | \$ — | \$ 303 |
| Intersegment Revenues | 5 | — | — | — | — | — | 5 |
| Depreciation, Depletion and Amortization | 5 | 14 | — | 4 | 1 | — | 24 |
| Basis of Real Estate Sold | — | — | 17 | — | — | — | 17 |
| Other Operating Gain | — | — | — | — | — | — | — |
| Equity Loss ^(D) | — | — | — | — | — | — | — |
| Operating Income (Loss) | 8 | 23 | 30 | 14 | 4 | — | 79 |
| Six Months Ended June 30, 2014 | | | | | | | |
| External Revenues | \$ 113 | \$ 250 | \$ 100 | \$ 184 | \$ 18 | \$ 8 | \$ 673 |
| Intersegment Revenues | 14 | — | — | — | — | — | 14 |
| Depreciation, Depletion and Amortization | 14 | 37 | — | 9 | 4 | — | 64 |
| Basis of Real Estate Sold | — | — | 31 | — | — | — | 31 |
| Other Operating Gain | — | — | — | 2 | — | — | 2 |
| Equity Loss ^(D) | — | — | — | — | — | (3) | (3) |
| Operating Income | 21 | 64 | 57 | 19 | 12 | (4) | 169 |
| Six Months Ended June 30, 2013 | | | | | | | |
| External Revenues | \$ 114 | \$ 202 | \$ 131 | \$ 185 | \$ 11 | \$ — | \$ 643 |
| Intersegment Revenues | 13 | — | — | — | — | — | 13 |
| Depreciation, Depletion and Amortization | 12 | 28 | — | 8 | 1 | — | 49 |
| Basis of Real Estate Sold | — | — | 42 | — | — | — | 42 |
| Other Operating Gain | — | — | — | — | — | — | — |
| Equity Loss ^(D) | — | — | — | — | — | — | — |
| Operating Income | 19 | 47 | 75 | 24 | 9 | — | 174 |

(A) During the second quarter of 2014, the Operating Partnership experienced a fire at its MDF facility. The Operating Partnership recorded a \$2 million loss representing the net book value of the building and equipment damaged or destroyed by the fire. During the second quarter of 2014, the Operating Partnership also recorded a \$4 million gain related to partial

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insurance recoveries the Operating Partnership expects to receive. The amount of insurance recoveries was based on the costs incurred during the second quarter to rebuild or replace the damaged building and equipment. Substantially all of these costs were capitalized during the second quarter of 2014. Both the building and equipment loss and the insurance recoveries are reported as Other Operating Gain in the Manufacturing Segment and are included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

- (B) The Other Segment includes revenue and expenses associated with our new business of providing timber and wood-fiber procurement services, along with equity earnings (losses) associated with our investments in real estate development ventures. There were no similar activities in 2013.
- (C) Consolidated depreciation, depletion and amortization includes unallocated corporate expense of \$1 million for each of the quarterly periods ended June 30, 2014 and June 30, 2013, respectively, and includes \$2 million for each of the six-month periods ended June 30, 2014 and June 30, 2013, respectively.
- (D) For Segment reporting, Equity Loss from Real Estate Development Ventures of \$2 million and \$0 for the quarterly periods ended June 30, 2014 and June 30, 2013, respectively, and Equity Loss from Real Estate Development Ventures of \$3 million and \$0 for the six-month periods ended June 30, 2014 and June 30, 2013, respectively, are included in Operating Income (Loss) for the Other Segment.

A reconciliation of total segment operating income to income before income taxes is presented below for the **quarterly and six-month periods ended June 30** (in millions):

| | Quarter Ended June 30, | |
|---|------------------------|--------------|
| | 2014 | 2013 |
| Total Segment Operating Income (from table above) | \$ 96 | \$ 79 |
| Corporate and Other Unallocated Expenses | (17) | (18) |
| Other Unallocated Operating Income (Expense), net | 1 | 1 |
| Equity Earnings from Timberland Venture | 17 | 17 |
| Interest Expense, net | (27) | (20) |
| Income before Income Taxes | <u>\$ 70</u> | <u>\$ 59</u> |

| | Six Months Ended June 30, | |
|---|---------------------------|---------------|
| | 2014 | 2013 |
| Total Segment Operating Income (from table above) | \$ 169 | \$ 174 |
| Corporate and Other Unallocated Expenses | (35) | (35) |
| Other Unallocated Operating Income (Expense), net | 2 | 1 |
| Equity Earnings from Timberland Venture | 32 | 31 |
| Interest Expense, net | (54) | (41) |
| Income before Income Taxes | <u>\$ 114</u> | <u>\$ 130</u> |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statement

This Report contains forward-looking statements within the meaning of the Private Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” “projects,” “strategy,” or “anticipates,” or the negative of those words or other comparable terminology. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those described in the forward-looking statements, including those factors described under the heading “Risk Factors” in our filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and Securities Act of 1933, as amended, including, but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2013. Some factors include changes in governmental, legislative and environmental restrictions, catastrophic losses from fires, floods, windstorms, earthquakes, volcanic eruptions, insect infestations or diseases, as well as changes in economic conditions and competition in our domestic and export markets and other factors described from time to time in our filings with the Securities and Exchange Commission. In addition, factors that could cause our actual results to differ from those contemplated by our projected, forecasted, estimated or budgeted results as reflected in forward-looking statements relating to our operations and business include, but are not limited to:

- the failure to meet our expectations with respect to our likely future performance;
- an unanticipated reduction in the demand for timber products and/or an unanticipated increase in supply of timber products;
- an unanticipated reduction in demand for higher and better use timberlands or non-strategic timberlands;
- our failure to make strategic acquisitions or to integrate any such acquisitions effectively or, conversely, our failure to make strategic divestitures; and
- our failure to qualify as a real estate investment trust, or REIT.

It is likely that if one or more of the risks materializes, or if one or more assumptions prove to be incorrect, the current expectations of Plum Creek and its management will not be realized. Forward-looking statements speak only as of the date made, and neither Plum Creek nor its management undertakes any obligation to update or revise any forward-looking statements.

The following discussion and analysis should be read in conjunction with the financial information and analysis included in our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2014.

Organization of the Company

In management’s discussion and analysis of financial condition and results of operations (Item 2 of this form), when we refer to “Plum Creek,” “the company,” “we,” “us,” or “our,” we mean Plum Creek Timber Company, Inc. and its consolidated subsidiaries. References to Notes to Consolidated Financial Statements refer to the Notes to the Consolidated Financial Statements of Plum Creek Timber Company, Inc. included in Item 1 of this Form 10-Q.

Plum Creek Timber Company, Inc., a Delaware Corporation and a real estate investment trust, or “REIT”, for federal income tax purposes, is the parent company of Plum Creek Timberlands, L.P., a Delaware Limited Partnership (the “Operating Partnership” or “Partnership”), and Plum Creek Ventures I, LLC, a Delaware Limited Liability Company (“PC Ventures”). Plum Creek conducts substantially all of its activities through the Operating Partnership and various wholly-owned subsidiaries of the Operating Partnership.

The Operating Partnership has borrowed and has currently outstanding \$2.6 billion principal amount of debt, including \$1.3 billion of publicly issued notes. PC Ventures has borrowed and has currently outstanding \$783 million in principal amount of debt (“the Note Payable to Timberland Venture”) from an entity (“the Timberland Venture”) in which a subsidiary of the Operating Partnership has a common and preferred equity interest. See Note 12 of the Notes to Consolidated Financial Statements. PC Ventures used the proceeds from the borrowing to make a \$783 million capital contribution to the Operating Partnership in exchange for a preferred equity interest in the Operating Partnership. PC Ventures has no other activities and the Operating Partnership has no ownership interest in PC Ventures.

The Note Payable to Timberland Venture is an obligation of PC Ventures and not an obligation of the Operating Partnership. Therefore, any discussion of the Note Payable to Timberland Venture below is not applicable to the Operating Partnership. Unless otherwise specified, all other discussion and analysis below are applicable to both Plum Creek and the Operating Partnership.

Results of Operations

Second Quarter 2014 Compared to Second Quarter 2013

The following table compares Operating Income (Loss) by Segment and other items impacting our net income for the **quarters ended June 30** (in millions):

| | Quarter Ended June 30, | | Change |
|---|-------------------------------|--------------|-------------|
| | 2014 | 2013 | |
| Operating Income (Loss) by Segment | | | |
| Northern Resources | \$ 5 | \$ 8 | \$ (3) |
| Southern Resources | 33 | 23 | 10 |
| Real Estate | 45 | 30 | 15 |
| Manufacturing | 10 | 14 | (4) |
| Energy and Natural Resources | 6 | 4 | 2 |
| Other | (3) | — | (3) |
| Total Segment Operating Income | <u>96</u> | <u>79</u> | 17 |
| Other Costs and Eliminations | (17) | (18) | 1 |
| Other Unallocated Operating Income (Expense), net | 1 | 1 | — |
| Equity Earnings from Timberland Venture | 17 | 17 | — |
| Total Interest Expense, net | (42) | (35) | (7) |
| Provision (Benefit) for Income Taxes | — | (2) | 2 |
| Net Income | <u>\$ 55</u> | <u>\$ 46</u> | <u>\$ 9</u> |

Northern Resources Segment. In December 2013, we acquired approximately 501,000 acres of timberland from MeadWestvaco Corporation ("MWV"). Of the MWV timberlands acquired, approximately 147,000 acres are included in the Northern Resources Segment.

Key operating statistics for the segment are as follows:

| | Quarter Ended June 30, 2014 | | Quarter Ended June 30, 2013 | |
|-----------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Harvest Tons (millions) | Average Sales Realization | Harvest Tons (millions) | Average Sales Realization |
| Sawlog (\$/Ton Delivered) | 0.499 | \$ 83 | 0.581 | \$ 79 |
| Pulpwood (\$/Ton Delivered) | 0.248 | \$ 41 | 0.209 | \$ 42 |
| Total | 0.747 | | 0.790 | |

Revenues decreased by \$3 million, or 6%, to \$50 million in the second quarter of 2014 compared to the second quarter of 2013. Excluding the acquired MWV timberlands, revenues decreased by \$7 million, or 13%, to \$46 million. The decrease was due primarily to lower sawlog harvest volumes (\$9 million), partially offset by higher sawlog prices (\$2 million).

Sawlog harvest volumes decreased 14% in the second quarter of 2014 compared to the second quarter of 2013. Excluding the MWV timberlands, sawlog harvest volumes decreased 19% in the second quarter of 2014 compared to the second quarter of 2013 due primarily to recent land sales and harvest schedule and timber inventory updates. Pulpwood harvest volumes increased 19% in the second quarter of 2014 compared to the second quarter of 2013. Excluding the MWV timberlands, pulpwood harvest volumes decreased 6% in the second quarter of 2014 compared to the second quarter of 2013.

Sawlog prices increased 5% in the second quarter of 2014 compared to the second quarter of 2013. Sawlog prices increased due primarily to improving demand and limited supply. The demand for sawlogs has improved due primarily to improving U.S. housing starts and increased exports of logs and lumber (primarily to China). Housing starts during the first six months of 2014 increased 6% compared to the first six months of 2013. The supply of sawlogs in our Northern Segment remains limited.

Excluding the MWV timberlands, Northern Resources Segment operating income was 9% of its revenues for the second quarter of 2014 compared to 15% of its revenues for the second quarter of 2013. The decrease in operating performance was due primarily to lower sawlog harvest levels. Segment costs and expenses were \$45 million for both the second quarter of 2014 and the second quarter of 2013. Excluding the MWV timberlands, segment costs and expenses decreased by \$4 million, or 9%, to \$42 million due primarily to lower sawlog harvest volumes, partially offset by higher log and haul rates. Log and haul rates per ton increased 5% (\$1 million) due primarily to salvage logging on our Montana and Oregon timberlands that were impacted by fires in 2013.

For 2014, we still expect sawlog harvest volumes to decrease by approximately 10% compared to the 2.5 million tons we harvested in 2013. Excluding the MWV timberlands, we expect sawlog harvest volume to decrease by approximately 15% compared to tons harvested in 2013. We expect pulpwood harvest volumes to increase by approximately 15% compared to the 1.4 million tons we harvested in 2013. Excluding MWV timberlands, we expect pulpwood harvest volume to be comparable to tons harvested in 2013.

Southern Resources Segment. In December 2013, we acquired approximately 501,000 acres of timberland from MWV. Of the MWV timberlands acquired, approximately 354,000 acres are included in the Southern Resources Segment.

Key operating statistics for the segment are as follows:

| | Quarter Ended June 30, 2014 | | Quarter Ended June 30, 2013 | |
|----------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Harvest Tons (millions) | Average Sales Realization | Harvest Tons (millions) | Average Sales Realization |
| Sawlog (\$/Ton Stumpage) | 1.619 | \$ 22 | 1.276 | \$ 21 |
| Pulpwood (\$/Ton Stumpage) | 2.159 | \$ 12 | 1.688 | \$ 11 |
| Total | 3.778 | | 2.964 | |

Revenues increased by \$29 million, or 30%, to \$127 million in the second quarter of 2014 compared to the second quarter of 2013. Excluding the acquired MWV timberlands, revenues increased by \$8 million, or 8% to \$106 million. This increase was due primarily to higher sawlog volumes (\$3 million), higher sawlog prices (\$2 million), higher pulpwood volumes (\$2 million), and higher pulpwood prices (\$1 million).

Sawlog prices increased approximately 3% during the second quarter of 2014 compared to the second quarter of 2013 due primarily to increased log demand resulting from improved U.S. housing starts. Housing starts during the first six months of 2014 increased 6% compared to the first six months of 2013. Sawlog price improvement remained modest as total lumber production in the Southern U.S. was at relatively low levels and, as a result, there continued to be an adequate supply of logs at current demand levels.

Pulpwood prices increased 9% during the second quarter of 2014 compared to the second quarter of 2013. This increase was due primarily to continued good demand from our paper and packaging customers and increased fiber demand from competing uses, such as Oriented Strand Board and the export of wood pellets used to produce bioenergy.

Sawlog harvest volumes increased 27% during the second quarter of 2014 compared to the second quarter of 2013 and pulpwood harvest volumes increased 28% compared to the same period in the prior year. Excluding the MWV timberlands, sawlog harvest volumes increased 8% and pulpwood harvest volumes increased 6%. These increases are due primarily to harvest deferrals during the first half of 2013 to later in the year in anticipation of improving log prices.

Excluding the MWV timberlands, Southern Resources Segment operating income was 26% of its revenues for the second quarter of 2014 compared to 23% of its revenues for the second quarter of 2013. The improved operating performance was due primarily to higher sawlog and pulpwood prices. Segment costs and expenses increased by \$19 million, or 25%, to \$94 million for the second quarter of 2014 due primarily to higher harvest volumes (\$15 million) and, to a lesser extent, increased forest management expenses (\$2 million) and higher depletion rates (\$1 million) related to the MWV timberlands. Excluding the MWV timberlands, segment costs and expenses increased by \$4 million, or 5%, to \$79 million due primarily to increased harvest volumes.

For 2014, we expect sawlog harvest volumes to increase by approximately 15% compared to the 5.9 million tons we harvested in 2013. Excluding the MWV timberlands, we expect sawlog harvest volume to be flat compared to tons harvested in 2013. We expect pulpwood harvest volumes to increase by approximately 30% compared to the 7.6 million tons we harvested in 2013. Excluding MWV timberlands, we expect pulpwood harvest volume to increase by approximately 5% compared to tons harvested in 2013.

Real Estate Segment.

| Property | Quarter Ended June 30, 2014 | | | Quarter Ended June 30, 2013 | | |
|--------------------------------------|------------------------------------|----------------------------|-------------------------|------------------------------------|----------------------------|-------------------------|
| | Acres Sold | Revenues (millions) | Revenue per Acre | Acres Sold | Revenues (millions) | Revenue per Acre |
| Small Non-Strategic | 23,640 | \$ 19 | \$ 790 | 17,130 | \$ 20 | \$ 1,185 |
| Large Non-Strategic | — | — | — | — | — | — |
| Conservation | 11,875 | 8 | 635 | 17,525 | 14 | 835 |
| Higher and Better Use / Recreational | 31,530 | 46 | 1,485 | 9,825 | 19 | 1,925 |
| Conservation Easements | n/a | 4 | 300 | n/a | — | — |
| Total | 67,045 | \$ 77 | | 44,480 | \$ 53 | |

Revenues increased by \$24 million, or 45%, to \$77 million in the second quarter of 2014 compared to the second quarter of 2013. This increase was due primarily to selling approximately 49,400 acres in Wisconsin during the second quarter of 2014 for \$45.3 million. The transaction consisted of the following collection of properties: approximately 22,400 acres of higher and better use / recreational property with an estimated value of \$28.7 million; approximately 17,000 acres of small non-strategic property with an estimated value of \$11.6 million; and approximately 10,000 acres of conservation property with an estimated value of \$5 million.

Revenues from our higher and better use / recreational land sales increased due primarily to our second quarter of 2014 Wisconsin sale. Additionally, average per acre selling prices of higher and better use / recreational properties decreased by 23% during the second quarter of 2014 compared to the same period in the prior year due primarily to selling a significant number of acres in Wisconsin which generally has lower land values than other regions of the country. Correspondingly, the average per acre selling price for the second quarter of 2014 excluding the Wisconsin sale would have been similar to the revenue per acre we have realized in recent quarters.

Revenues from the sale of conservation properties consisted of large parcels in both the second quarter of 2014 and 2013. During the second quarter of 2014 we sold approximately 10,000 acres in Wisconsin and during the second quarter of 2013 we sold approximately 12,000 acres in Maine. Conservation sales vary significantly from period to period and are primarily impacted by government and not-for-profit funding, the limited number of conservation buyers, and the timing of our transactions. Additionally, the price per acre for conservation properties can vary significantly due to the geographic location and the rationale for the conservation designation.

During the second quarter of 2014 the company sold a conservation easement in New Hampshire for \$4 million. No easement sales occurred during the second quarter of 2013.

The timing of real estate sales is a function of many factors, including the general state of the economy, demand in local real estate markets, the ability to obtain entitlements, the ability of buyers to obtain financing, the number of competing properties listed for sale, the seasonal nature of sales (particularly in the northern states), the plans of adjacent landowners, our expectation of future price appreciation, the timing of harvesting activities, and the availability of government and not-for-profit funding (especially for conservation sales). Also, in any period the average sales price per acre will vary based on the location and physical characteristics of the parcels sold.

Real Estate Segment operating income was 58% of its second quarter revenues for 2014 compared to 57% for 2013. Real Estate Segment costs and expenses increased by \$9 million to \$32 million in the second quarter of 2014 due primarily to selling more acres during 2014.

Manufacturing Segment. Key operating statistics for the segment are as follows:

| | Quarter Ended June 30, 2014 | | Quarter Ended June 30, 2013 | |
|---------|-----------------------------|--|-----------------------------|--|
| | Sales Volume | Average Sales Realization ^(A) | Sales Volume | Average Sales Realization ^(A) |
| Lumber | 39,697 MBF | \$ 594 | 36,770 MBF | \$ 544 |
| Plywood | 37,620 MSF | \$ 468 | 48,364 MSF | \$ 464 |
| MDF | 54,831 MSF | \$ 675 | 60,273 MSF | \$ 668 |

(A) Represents product prices at the mill level.

Revenues decreased by \$5 million, or 5%, to \$94 million in the second quarter of 2014 compared to the second quarter of 2013. This decrease in revenues was due primarily to lower plywood sales volumes (\$5 million) and lower MDF sales volumes (\$4 million), partially offset by higher lumber prices (\$3 million) and higher lumber sales volume (\$1 million).

Plywood sales volume was 22% lower during the second quarter of 2014 compared to the second quarter of 2013 due primarily to a shortage of logs. During the first quarter of 2014, we experienced severe winter weather which prevented us from building adequate log inventories to support normal production levels during the second quarter of 2014. As a result, plywood sales volume for all of 2014 is expected to decline by approximately 10% compared to the sales volume of 187,000 MSF for all of 2013 due primarily to limited log availability.

MDF sales volume was 9% lower during the second quarter of 2014 compared to the second quarter of 2013 due primarily to a fire at our MDF facility. The fire, which occurred on June 10, 2014, temporarily suspended production at the facility. While production resumed in July, we expect MDF sales volume for all of 2014 to decline by approximately 6% compared to the sales volume of 214,000 MSF for all of 2013 as a result of the fire.

During the second quarter of 2014, we recorded a \$2 million loss representing the net book value of the building and equipment damaged or destroyed by the MDF fire. We also recorded a \$4 million gain related to partial insurance recoveries we expect to receive. The amount of insurance recoveries was based on the costs incurred during the second quarter to rebuild or replace the damaged building and equipment. Substantially all of these costs were capitalized during the second quarter of 2014. Both the building and equipment loss and the insurance recoveries are reported as Other Operating Gain in the Manufacturing Segment and are included in Other Operating Income (Expense), net in the Consolidated Statements of Income. See Note 11 of the Notes to Consolidated Financial Statements.

Lumber average prices increased 9% during the second quarter of 2014 compared to the second quarter of 2013 due primarily to a limited supply of boards. The supply of boards has been limited, in part, as many lumber manufacturers switched to producing

dimension lumber instead of boards due to improved demand for dimension lumber. Lumber sales volume was 8% higher during the second quarter of 2014 compared to the second quarter of 2013 due primarily to resuming operations at our Evergreen, Montana (stud lumber) sawmill in April 2013.

Manufacturing Segment operating income was 11% of its revenues for the second quarter of 2014 compared to 14% of its revenues for the second quarter of 2013. This decrease in operating performance was due primarily to lower plywood and MDF sales volumes and higher raw material costs, partially offset by insurance recovery gains. Manufacturing Segment costs and expenses increased by \$1 million, or 1%, to \$86 million. The increase in costs and expenses was due primarily to increased lumber sales volumes and higher plywood and lumber raw material costs, offset, in part, by lower plywood and MDF sales volumes. Plywood and lumber raw material costs on a per unit basis increased by approximately \$5 million during the second quarter of 2014 due primarily to a regional log shortage.

Energy and Natural Resources Segment. Revenues increased by \$4 million, or 80%, to \$9 million during the second quarter of 2014. This increase is due primarily to royalties from our recent acquisition of mineral rights in approximately 255 million tons of aggregate reserves in September 2013 (\$2 million) and royalties from recently acquired coal and wind assets in the MWV acquisition (\$2 million).

Operating income was \$6 million during the second quarter of 2014 compared to \$4 million during the prior year quarter. Costs and expenses increased by \$2 million to \$3 million during the second quarter of 2014 due primarily to higher depletion expense associated with our newly acquired mineral rights, coal and wind assets.

Other Segment. Beginning in 2014, in connection with the new business of providing timber and wood-fiber procurement services, we began reporting in our Other Segment business activities associated with the harvesting and selling of trees from timberlands that are not owned by the company. Additionally, we report in the Other Segment the equity earnings (losses) associated with our recently acquired investment in MWV-Charleston Land Partners, LLC ("MWV-CLP"). See Note 12 of the Notes to Consolidated Financial Statements. For the second quarter of 2014, the Other Segment reported a loss of \$3 million that is due primarily to recording our share of equity loss from our investment in MWV-CLP.

Other Costs and Eliminations. Other costs and eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$17 million during the second quarter of 2014 and decreased operating income by \$18 million during the second quarter of 2013.

Interest Expense, net. On December 6, 2013, we issued an \$860 million installment note to MWV Community Development and Land Management, LLC ("MWV CDLM") in connection with the acquisition of certain timberland assets. Our effective net interest rate on this note is approximately 4.5%. Also during 2013, we paid off our remaining Private Debt (\$260 million), paid down \$225 million of our term credit agreement and made pre-payments of approximately \$24 million of principal on our Public Debt.

As a result of the above transactions, interest expense, net of interest income, increased \$7 million, or 20%, to \$42 million in the second quarter of 2014. This increase was due primarily to interest expense on our \$860 million installment note payable (\$9 million), offset by a reduction in interest expense as a result of the debt repayments in 2013 (\$2 million).

Provision (Benefit) for Income Taxes. The provision for income taxes was essentially \$0 for the second quarter of 2014 compared to a benefit for income taxes of \$2 million for the second quarter of 2013. This \$2 million increase in expense for income taxes was due primarily to higher earnings from real estate sales by our taxable REIT subsidiaries, which increased tax expense by \$4 million, offset in part by lower earnings from our manufacturing businesses, which decreased tax expense by \$2 million.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

The following table compares Operating Income (Loss) by Segment and other items impacting our net income for the **six months ended June 30** (in millions):

| | Six Months Ended June 30, | | Change |
|---|----------------------------------|---------------|----------------|
| | 2014 | 2013 | |
| Operating Income (Loss) by Segment | | | |
| Northern Resources | \$ 21 | \$ 19 | \$ 2 |
| Southern Resources | 64 | 47 | 17 |
| Real Estate | 57 | 75 | (18) |
| Manufacturing | 19 | 24 | (5) |
| Energy and Natural Resources | 12 | 9 | 3 |
| Other | (4) | — | (4) |
| Total Segment Operating Income | <u>169</u> | 174 | (5) |
| Other Costs and Eliminations | (35) | (35) | — |
| Other Unallocated Operating Income (Expense), net | 2 | 1 | 1 |
| Equity Earnings from Timberland Venture | 32 | 31 | 1 |
| Total Interest Expense, net | (83) | (70) | (13) |
| Provision (Benefit) for Income Taxes | — | (1) | 1 |
| Net Income | <u>\$ 85</u> | <u>\$ 102</u> | <u>\$ (17)</u> |

Northern Resources Segment. In December 2013, we acquired approximately 501,000 acres of timberland from MWV. Of the MWV timberlands acquired, approximately 147,000 acres are included in the Northern Resources Segment.

Key operating statistics for the segment are as follows:

| | Six Months Ended June 30, 2014 | | Six Months Ended June 30, 2013 | |
|-----------------------------|---------------------------------------|----------------------------------|--------------------------------|---------------------------|
| | Harvest Tons (millions) | Average Sales Realization | Harvest Tons (millions) | Average Sales Realization |
| Sawlog (\$/Ton Delivered) | 1.166 | \$ 85 | 1.285 | \$ 78 |
| Pulpwood (\$/Ton Delivered) | 0.718 | \$ 43 | 0.623 | \$ 42 |
| Total | <u>1.884</u> | | <u>1.908</u> | |

Revenues were \$127 million for both the first six months of 2014 and the first six months of 2013. Excluding the acquired MWV timberlands, revenues decreased by \$6 million, or 5% to \$121 million. The decrease was due primarily to lower sawlog volumes (\$13 million), partially offset by higher sawlog prices (\$8 million).

Sawlog harvest volumes decreased 9% during the first six months of 2014 compared to the first six months of 2013. Excluding the MWV timberlands, sawlog harvest volumes decreased 13% during the first six months of 2014 compared to the first six months of 2013 due primarily to recent land sales and harvest schedule and timber inventory updates. Pulpwood harvest volumes increased 15% during the first six months of 2014 compared to the first six months of 2013. Excluding the MWV timberlands, pulpwood harvest volumes increased 2% during the first six months of 2014 compared to the first six months of 2013.

Sawlog prices increased 9% during the first six months of 2014 compared to the first six months of 2013. Sawlog prices increased due primarily to improved demand and limited supply. The demand for sawlogs has improved due primarily to improving U.S. housing starts and increased exports of logs and lumber (primarily to China). Housing starts during the first six months of 2014 increased 6% compared to the first six months of 2013. The supply of sawlogs in our Northern Segment remains limited.

Excluding the MWV timberlands, Northern Resources Segment operating income was 16% of its revenues for the first six months of 2014 compared to 15% of its revenues for the first six months of 2013. The increase in operating performance was due primarily to higher sawlog prices. Segment costs and expenses decreased by \$2 million, or 2%, to \$106 million. Excluding the MWV timberlands, segment costs and expenses decreased by \$6 million, or 6%, to \$102 million due primarily to lower sawlog harvest

volumes, partially offset by higher log and haul rates. Log and haul rates per ton increased 4% (\$2 million) due primarily to salvage logging on our Montana and Oregon timberlands that were impacted by fires in 2013.

For 2014, we still expect sawlog harvest volumes to decrease by approximately 10% compared to the 2.5 million tons we harvested in 2013. Excluding the MWV timberlands, we expect sawlog harvest volume to decrease by approximately 15% compared to tons harvested in 2013. We expect pulpwood harvest volumes to increase by approximately 15% compared to the 1.4 million tons we harvested in 2013. Excluding MWV timberlands, we expect pulpwood harvest volume to be comparable to tons harvested in 2013.

Southern Resources Segment. In December 2013, we acquired approximately 501,000 acres of timberland from MWV. Of the MWV timberlands acquired, approximately 354,000 acres are included in the Southern Resources Segment.

Key operating statistics for the segment are as follows:

| | Six Months Ended June 30, 2014 | | Six Months Ended June 30, 2013 | |
|----------------------------|--------------------------------|---------------------------|--------------------------------|---------------------------|
| | Harvest Tons (millions) | Average Sales Realization | Harvest Tons (millions) | Average Sales Realization |
| Sawlog (\$/Ton Stumpage) | 3.169 | \$ 22 | 2.615 | \$ 21 |
| Pulpwood (\$/Ton Stumpage) | 4.213 | \$ 12 | 3.459 | \$ 11 |
| Total | 7.382 | | 6.074 | |

Revenues increased by \$48 million, or 24%, to \$250 million in the first six months of 2014 compared to the first six months of 2013. Excluding the acquired MWV timberlands, revenues increased by \$10 million, or 5% to \$212 million. This increase was due primarily to higher sawlog volumes (\$8 million), higher sawlog prices (\$4 million), higher pulpwood prices (\$2 million), partially offset by a decreased proportion of delivered sales (\$4 million).

Sawlog harvest volumes increased 21% during the first six months of 2014 compared to the first six months of 2013. Excluding the MWV timberlands, sawlog harvest volumes increased 6% due primarily to harvest deferrals during the first half of 2013 to later in the year in anticipation of improving log prices.

Sawlog prices increased approximately 6% during the first six months of 2014 compared to the first six months of 2013 due primarily to increased log demand resulting from improved U.S. housing starts. Housing starts during the first six months of 2014 increased 6% compared to the first six months of 2013. Sawlog price improvement remained modest as total lumber production in the Southern U.S. was at relatively low levels and, as a result, there continued to be an adequate supply of logs at current demand levels.

Pulpwood prices increased 8% during the first six months of 2014 compared to the first six months of 2013. This increase was due primarily to continued good demand from our paper and packaging customers and increased fiber demand from competing uses, such as Oriented Strand Board and the export of wood pellets used to produce bioenergy.

In certain markets, demand for delivered log sales was generally stronger in the prior year (i.e. during the first six months of 2013) than markets for the sale of standing timber (or “stumpage”). Under delivered log sale agreements, we are responsible for log and haul costs, while under agreements to sell standing timber, the buyer is responsible for log and haul costs. While revenues are higher under a delivered log sale, a large portion of the increase is to cover the related increase in cost of sales.

Excluding the MWV timberlands, Southern Resources Segment operating income was 26% of its revenues for the first six months of 2014 compared to 23% of its revenues for the first six months of 2013. The improved operating performance was due primarily to higher sawlog and pulpwood prices. Segment costs and expenses increased by \$31 million, or 20%, to \$186 million for the first six months of 2014 due primarily to higher harvest volumes (\$24 million) and, to a lesser extent, increased forest management expenses (\$3 million) and higher depletion rates (\$3 million) related to the MWV timberlands. Excluding the MWV timberlands, segment costs and expenses increased by \$4 million, or 2%, to \$158 million due primarily to increased harvest volumes.

For 2014, we expect sawlog harvest volumes to increase by approximately 15% compared to the 5.9 million tons we harvested in 2013. Excluding the MWV timberlands, we expect sawlog harvest volume to be flat compared to tons harvested in 2013. We expect pulpwood harvest volumes to increase by approximately 30% compared to the 7.6 million tons we harvested in 2013. Excluding MWV timberlands, we expect pulpwood harvest volume to increase by approximately 5% compared to tons harvested in 2013.

Real Estate Segment.

| Property | Six Months Ended June 30, 2014 | | | Six Months Ended June 30, 2013 | | |
|--------------------------------------|---------------------------------------|----------------------------|-------------------------|---------------------------------------|----------------------------|-------------------------|
| | Acres Sold | Revenues (millions) | Revenue per Acre | Acres Sold | Revenues (millions) | Revenue per Acre |
| Small Non-Strategic | 26,675 | \$ 23 | \$ 850 | 22,815 | \$ 27 | \$ 1,195 |
| Large Non-Strategic | — | — | — | 36,000 | 53 | 1,475 |
| Conservation | 15,290 | 14 | 865 | 18,495 | 17 | 925 |
| Higher and Better Use / Recreational | 35,655 | 55 | 1,570 | 17,420 | 34 | 1,960 |
| Conservation Easements | n/a | 8 | 320 | n/a | — | — |
| Total | 77,620 | \$ 100 | | 94,730 | \$ 131 | |

Revenues decreased by \$31 million, or 24%, to \$100 million in the first six months of 2014 compared to the first six months of 2013. This decrease is due primarily to a decrease in large non-strategic land sales (\$53 million), offset in part by an increase in higher and better use / recreational sales (\$21 million) and increase in conservation easement sales (\$8 million).

Revenue from the sale of large non-strategic timberlands was \$53 million during the first six months of 2013 compared with no sales during the same period in 2014. Large non-strategic sales are expected to provide a smaller percentage of our real estate revenues during 2014 compared to 2013.

Revenues from our higher and better use / recreational land sales increased due primarily to selling approximately 18,200 more acres compared to the first six months of 2013. This increase was due primarily to a Wisconsin transaction which closed during the second quarter of 2014 and consisted of a sale of approximately 22,400 acres of higher and better use / recreational property with an estimated value of \$28.7 million; approximately 17,000 acres of small non-strategic property with an estimated value of \$11.6 million; and approximately 10,000 acres of conservation property with an estimated value of \$5 million. Additionally, average per acre selling prices for higher and better use / recreational properties decreased 20% during the first six months of 2014 compared to the same period in the prior year due primarily to selling a significant number of acres in Wisconsin which generally has lower land values than other regions of the country. Correspondingly, the average per acre selling price for the first half of 2014 excluding the Wisconsin sale would have been similar to the revenue per acre we have realized in recent quarters.

During the first half of 2014 the company sold conservation easements in New Hampshire for nearly \$8 million. No easement sales occurred during the first six months of 2013.

The timing of real estate sales is a function of many factors, including the general state of the economy, demand in local real estate markets, the ability to obtain entitlements, the ability of buyers to obtain financing, the number of competing properties listed for sale, the seasonal nature of sales (particularly in the northern states), the plans of adjacent landowners, our expectation of future price appreciation, the timing of harvesting activities, and the availability of government and not-for-profit funding (especially for conservation sales). In any period the average sales price per acre will vary based on the location and physical characteristics of the parcels sold.

We expect revenues from real estate sales during 2014 to range between \$240 million and \$280 million.

Real Estate Segment operating income as a percent of revenue was 57% for the first six months of 2014 and 2013. Real Estate Segment costs and expenses decreased by \$13 million to \$43 million in the first half of 2014 due primarily to selling fewer acres.

Manufacturing Segment. Key operating statistics for the segment are as follows:

| | Six Months Ended June 30, 2014 | | Six Months Ended June 30, 2013 | |
|---------|--------------------------------|--|--------------------------------|--|
| | Sales Volume | Average Sales Realization ^(A) | Sales Volume | Average Sales Realization ^(A) |
| Lumber | 77,400 MBF | \$ 584 | 67,305 MBF | \$ 555 |
| Plywood | 76,808 MSF | \$ 460 | 95,269 MSF | \$ 463 |
| MDF | 105,512 MSF | \$ 677 | 112,602 MSF | \$ 655 |

(A) Represents product prices at the mill level.

Revenues were \$184 million for the first six months of 2014 and were \$185 million for the first six months of 2013. Higher lumber prices (\$5 million), higher lumber volumes (\$4 million), and higher MDF prices (\$2 million), were offset by lower plywood sales volumes (\$8 million) and lower MDF sales volumes (\$4 million).

Lumber sales prices increased 5% during the first six months of 2014 compared to the first six months of 2013 due primarily to a limited supply of boards. The supply of boards has been limited, in part, as many lumber manufacturers switched to producing dimension lumber instead of boards due to improved demand for dimension lumber. Lumber sales volume was 15% higher during the first six months of 2014 compared to the first six months of 2013 due primarily to resuming operations at our Evergreen, Montana (stud lumber) sawmill in April 2013.

MDF sales volume was 6% lower during the first six months of 2014 compared to the first six months of 2013 due primarily to a fire at our MDF facility. The fire, which occurred on June 10, 2014, temporarily suspended production at the facility. While production resumed in July, we expect MDF sales volume for all of 2014 to decline by approximately 6% compared to the sales volume of 214,000 MSF for all of 2013 as a result of the fire. MDF average prices were 3% higher during the first six months of 2014 compared to the first six months of 2013.

During the second quarter of 2014, we recorded a \$2 million loss representing the net book value of the building and equipment damaged or destroyed by the MDF fire. We also recorded a \$4 million gain related to partial insurance recoveries we expect to receive. The amount of insurance recoveries was based on the costs incurred during the second quarter to rebuild or replace the damaged building and equipment. Substantially all of these costs were capitalized during the second quarter of 2014. Both the building and equipment loss and the insurance recoveries are reported as Other Operating Gain in the Manufacturing Segment and are included in Other Operating Income (Expense), net in the Consolidated Statements of Income. See Note 11 of the Notes to Consolidated Financial Statements.

Plywood sales volume was 19% lower during the first six months of 2014 compared to the first six months of 2013 due primarily to a shortage of logs. During the first quarter of 2014, we experienced severe winter weather which prevented us from building adequate log inventories to support normal production levels during the first half of 2014. As a result, plywood sales volume for all of 2014 is expected to decline by approximately 10% compared to the sales volume of 187,000 MSF for all of 2013 due primarily to limited log availability.

Manufacturing Segment operating income was 10% of its revenues for the first six months of 2014 compared to 13% of its revenues for the first six months of 2013. This decrease in operating performance was due primarily to lower plywood and MDF sales volumes and higher raw material costs, partially offset by insurance recovery gains. Manufacturing Segment costs and expenses increased by \$6 million, or 4%, to \$167 million. The increase in costs and expenses is due primarily to increased lumber sales volumes and higher raw material costs (in all of our product lines), offset, in part, by lower plywood and MDF sales volumes. Plywood and lumber raw material costs on a per unit basis increased by approximately \$10 million during the first six months of 2014 compared to the first six months of 2013 due primarily to a regional log shortage and MDF costs on a per unit basis increased by approximately 5% (\$2 million) in the same period due primarily to rising resin and fiber costs.

Energy and Natural Resources Segment. Revenues increased by \$7 million, or 64%, to \$18 million during the first six months of 2014. This increase is due primarily to royalties from our recent acquisition of mineral rights in approximately 255 million tons of aggregate reserves in September 2013 (\$4 million) and royalties from recently acquired coal and wind assets in the MWV acquisition (\$3 million).

Operating income was \$12 million during the first six months of 2014 compared to \$9 million during the first six months of 2013. Costs and expenses increased by \$4 million to \$6 million during the first six months of 2014 due primarily to higher depletion expense associated with our newly acquired mineral rights, coal and wind assets.

Other Segment. Beginning in 2014, in connection with the new business of providing timber and wood-fiber procurement services, we began reporting in our Other Segment business activities associated with the harvesting and selling of trees from timberlands that are not owned by the company. Additionally, we report in the Other Segment the equity earnings (losses) associated with our recently acquired investment in MWV-CLP. See Note 12 of the Notes to Consolidated Financial Statements. For the first six months of 2014, the Other Segment reported a loss of \$4 million that is due primarily to recording our share of equity loss from our investment in MWV-CLP.

Other Costs and Eliminations. Other costs and eliminations (which consist of corporate overhead and intercompany profit elimination) decreased operating income by \$35 million for both the first six months of 2014 and 2013.

Interest Expense, net. On December 6, 2013, we issued an \$860 million installment note to MWV CDLM in connection with the acquisition of certain timberland assets. Our effective net interest rate on this note is approximately 4.5%. Also during 2013, we paid off our remaining Private Debt (\$260 million), paid down \$225 million of our term credit agreement and made pre-payments of approximately \$24 million of principal on our Public Debt.

As a result of the above transactions, interest expense, net of interest income, increased \$13 million, or 19%, to \$83 million in the first six months of 2014. This increase was due primarily to interest expense on our \$860 million installment note payable (\$19 million), offset by a reduction in interest expense as a result of the debt repayments in 2013 (\$6 million).

Provision (Benefit) for Income Taxes. The provision for income taxes was essentially \$0 for the first six months of 2014 compared to a benefit for income taxes of \$1 million for the first six months of 2013. This \$1 million increase in expense for income taxes was due primarily to higher earnings from real estate sales by our taxable REIT subsidiaries, which increased tax expense by \$3 million, offset in part by lower earnings from our manufacturing businesses, which decreased tax expense by \$2 million.

At June 30, 2014, we have recorded deferred tax assets of \$59 million (net of a \$10 million valuation allowance) and deferred tax liabilities of \$33 million. Our determination of the realization of deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing, nature and amount of future taxable income earned by certain wholly-owned subsidiaries. A valuation allowance is recognized if management believes it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. Management believes that due to the reversal of various taxable temporary differences and/or the planned execution of prudent and feasible tax planning strategies, sufficient taxable income can be generated to utilize the company's remaining deferred tax assets of \$59 million for which a valuation allowance was determined to be unnecessary.

Financial Condition and Liquidity

We believe we have a strong balance sheet and do not foresee any near-term liquidity issues. At June 30, 2014, we had a cash balance of \$107 million and had availability of \$546 million under our line of credit. In addition to the discussion that follows, we have summarized our sources and uses of cash for the six months ended June 30, 2014 and 2013 in a table later in this section.

Cash Flow

The following table summarizes total cash flows for operating, investing and financing activities for the **six months ended June 30** (in millions):

| | Six Months Ended June 30, | | Change |
|---|---------------------------|--------|----------|
| | 2014 | 2013 | |
| Net Cash Provided By (Used In) Operating Activities | \$ 189 | \$ 140 | \$ 49 |
| Net Cash Provided By (Used In) Investing Activities | (43) | (109) | 66 |
| Net Cash Provided By (Used In) Financing Activities | (472) | (32) | (440) |
| Change in Cash and Cash Equivalents | \$ (326) | \$ (1) | \$ (325) |

Cash Flows from Operating Activities. Net cash provided by operating activities for the six months ended June 30, 2014 was \$189 million compared to \$140 million for the six months ended June 30, 2013. The increase of \$49 million is due primarily to positive working capital changes (\$47 million), higher operating income from our Resources Segments (\$19 million), and lower expenditures (\$18 million) for the purchase of standing timber (timber deed), partially offset by lower proceeds from real estate

sales (\$28 million). See Results of Operations for a discussion of factors impacting operating income for our Resources Segments and factors impacting real estate proceeds for our Real Estate Segment.

The positive working capital changes reflect a decrease in other current assets and increases in accounts payable and interest payable during the first six months of 2014 compared to the first six months of 2013. The decrease in other current assets was due primarily to the payment of a refundable deposit (\$20 million) during the second quarter of 2013 in connection with securing an asset that is now subject to an operating lease. This deposit was refunded to the company in the third quarter of 2013. The favorable accounts payable working capital variance (\$10 million) is due primarily to higher harvest volumes in our Resources Segments and increased raw materials costs for our Manufacturing Segment and, to a lesser extent, the timing of payment processing for our independent loggers and haulers. The interest payable working capital variance (\$8 million) is due primarily to the timing and amount of interest payments related to the December 6, 2013, issuance of an \$860 million installment note to MWV Community Development and Land Management, LLC.

During the first six months of 2013, we acquired approximately 0.9 million tons of standing timber under a timber deed that expires in 2020 for \$18 million. The volume acquired under a timber deed, along with future growth, is harvested over the term of the deed.

Capital Expenditures. Capital expenditures (excluding timberland acquisitions) for the six months ended June 30, 2014 were \$40 million compared to \$31 million for the same period in 2013. Planned capital expenditures for 2014 are expected to range between \$85 million and \$90 million and include approximately \$70 million for our timberlands, \$7 million for our manufacturing facilities, \$4 million for our real estate development projects, and \$6 million for investments in information technology. The timberland expenditures are primarily for reforestation and other expenditures associated with the planting and growing of trees. Approximately 55% of planned capital expenditures in 2014 are discretionary, primarily expenditures for silviculture. Capital expenditures at our manufacturing facilities consist primarily of expenditures to sustain operating activities.

During the second quarter of 2014, we incurred a fire loss at our MDF facility. Not included in planned capital expenditures described in the paragraph above, we expect to incur approximately \$8 million to \$10 million of total capital expenditures to restore the facility. We have incurred approximately \$4 million of capital expenditures to rebuild the damaged building and equipment as of June 30, 2014. We expect to receive insurance proceeds, reduced by our \$1 million deductible, to reimburse the company for these costs. Insurance proceeds related to reimbursed costs will be reported, when received, under investing activities in the Consolidated Statements of Cash Flows. No insurance proceeds were received for the six months ended June 30, 2014.

Expenditures for real estate development are included in Other Operating Activities, net on the Consolidated Statements of Cash Flows.

Real Estate Development Ventures. In connection with the timberland acquisition from MWV in 2013, the company and MWV formed a limited liability company (MWV-CLP). Plum Creek has agreed to make capital contributions to MWV-CLP through the year 2020, with minimum required contributions of \$9 million during 2014. During the six months ended June 30, 2014, the company made a contribution of \$4 million to MWV-CLP. Distributions of \$1 million were received from MWV-CLP during the six months ended June 30, 2014.

Future Cash Requirements. Cash required to meet our future financial needs will be significant; however, we do not have any scheduled debt principal payments in 2014. Our next scheduled debt principal payment is our 5.875% Senior Notes (\$439 million) which mature in November 2015. We believe that our cash flows from operating activities over the next twelve months will be more than adequate to fund planned capital expenditures and our dividend.

The following table summarizes our sources and uses of cash (in millions):

| | Six Months Ended June 30, | | Change |
|--|---------------------------|---------------|-----------------|
| | 2014 | 2013 | |
| Sources of Cash: | | | |
| Operations ^(A) | \$ 155 | \$ 172 | \$ (17) |
| Changes in Working Capital | 7 | (40) | 47 |
| Cash Distributions from Timberland Venture | 28 | 27 | 1 |
| Cash from Stock Option Exercises | 1 | 35 | (34) |
| Increase Debt Obligations, net | — | 75 | (75) |
| Total Sources of Cash | 191 | 269 | (78) |
| Uses of Cash: | | | |
| Returned to Stockholders: | | | |
| Dividends | (156) | (140) | (16) |
| Common Stock Repurchases | (2) | (2) | — |
| Reinvest in the Business: | | | |
| Capital Expenditures, including Real Estate Development ^(B) | (41) | (32) | (9) |
| Timber Deed Acquired | — | (18) | 18 |
| Timberlands Acquired | — | (78) | 78 |
| Contribution to Real Estate Development Ventures, net of Distributions | (3) | — | (3) |
| Reduce Debt Obligations, net | (315) | — | (315) |
| Total Uses of Cash | (517) | (270) | (247) |
| Change in Cash and Cash Equivalents | \$ (326) | \$ (1) | \$ (325) |

- (A) Calculated from the Consolidated Statements of Cash Flows by adding Depreciation, Depletion and Amortization, Basis of Real Estate Sold, Earnings from Unconsolidated Entities, Deferred Revenue from Long-Term Gas Leases (Net of Amortization), Deferred Income Taxes, and Other Operating Activities (excluding Expenditures for Real Estate Development - see Footnote B) to Net Income.
- (B) Calculated from the Consolidated Statements of Cash Flows by adding Capital Expenditures (excluding Timberland Acquisitions) and Expenditures for Real Estate Development, which are included in Other Operating Activities. Expenditures for Real Estate Development were \$1 million for each of the six month periods ending June 30, 2014 and 2013.

Borrowings

Debt Financing. We strive to maintain a balance sheet that provides the financial flexibility to pursue our strategic objectives. In order to maintain this financial flexibility, our objective is to maintain an investment grade credit rating. This is reflected in our moderate use of debt, established access to credit markets and no material covenant restrictions in our debt agreements that would prevent us from prudently using debt capital. All of our borrowings, except for the Note Payable to Timberland Venture, are made by Plum Creek Timberlands, L.P., the company's wholly-owned operating partnership (“the Partnership”). Furthermore, all of the outstanding indebtedness of the Partnership is unsecured.

Line of Credit. We have a \$700 million revolving line of credit agreement that matures in January 2019. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$700 million, including up to \$60 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. The interest rate on the line of credit is currently LIBOR plus 1.25%, including the facility fee. This rate can range from LIBOR plus 1% to LIBOR plus 2% depending on our debt ratings.

The weighted-average interest rate for the borrowings on the line of credit was 1.36% and 1.37% as of June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014, we had \$152 million of borrowings and \$2 million of standby letters of credit outstanding; \$546 million remained available for borrowing under our line of credit. As of July 1, 2014, \$105 million of the borrowings outstanding under our line of credit was repaid.

Term Credit Agreement. The company has a \$225 million term credit agreement that matures on April 3, 2019. The interest rate on the \$225 million term credit agreement was 1.65% and 1.66% as of June 30, 2014 and December 31, 2013, respectively. The interest rate on the \$225 million term credit agreement is based on LIBOR plus 1.50%. After giving effect to patronage distributions, the effective net interest rate on the term credit agreement was approximately 1% as of both June 30, 2014 and December 31, 2013. The term credit agreement is subject to covenants that are substantially the same as those of our revolving line of credit. The agreement allows for prepayment of the borrowings at any time prior to the maturity date without premium or penalty.

Senior Notes. As of June 30, 2014, the company had publicly issued and outstanding \$1,333 million aggregate principal amount of Senior Notes with various maturities and fixed interest rates (“Public Debt”). The Public Debt consists of \$439 million of 5.875% Public Debt which matures in 2015, \$569 million of 4.70% Public Debt which matures in 2021 and \$325 million of 3.25% Public Debt which matures in 2023. The Public Debt is issued by the Partnership and is fully and unconditionally guaranteed by Plum Creek Timber Company, Inc. Public Debt outstanding, including unamortized discount, was \$1,329 million as of both June 30, 2014 and December 31, 2013.

Plum Creek Timber Company, Inc. and the Partnership have filed a shelf registration statement with the Securities and Exchange Commission. Under the shelf registration statement, Plum Creek Timber Company, Inc., from time to time, may offer and sell any combination of preferred stock, common stock, depositary shares, warrants and guarantees, and the Partnership, from time to time, may offer and sell debt securities. The company and the Partnership intend to maintain a shelf registration statement with respect to such securities.

Installment Note Payable. The company has an \$860 million installment note payable to MWV CDLM issued in connection with a December 2013 timberland acquisition. MWV CDLM has pledged the installment note to banks in the farm credit system. The annual interest rate on the installment note is fixed at 5.207%. The company's effective net interest rate on the installment note, after giving effect to patronage distributions, was approximately 4.5% as of both June 30, 2014 and December 31, 2013.

During the ten year term of the note, interest is paid semi-annually with the principal due upon maturity. The installment note matures on December 6, 2023, but may be extended at the request of the holder (at prevailing market terms) if, at the time of the request, the company intends to refinance all or a portion of the installment note for a term of five years or more. The installment note is generally not redeemable prior to maturity except in certain limited circumstances and could be subject to a premium on redemption. The installment note is subject to covenants similar to those of our revolving line of credit and term credit agreement.

Debt Covenants. Our Senior Notes, Term Credit Agreement, Line of Credit and Installment Note Payable contain various restrictive covenants, none of which are expected to materially impact the financing of our ongoing operations. We are in compliance with all of our borrowing agreement covenants as of June 30, 2014.

Our Term Credit Agreement, Line of Credit and Installment Note Payable require that we maintain certain interest coverage and not exceed certain maximum leverage ratios. We have no covenants and restrictions associated with changes in our debt ratings. Our Term Credit Agreement, Line of Credit and Installment Note Payable each contain a covenant restricting our ability to make any restricted payments, which includes dividend payments, if we are in default under our debt agreements. Furthermore, there are no material covenants associated with our Note Payable to Timberland Venture, and this indebtedness is not considered in computing any of our debt covenants since the debt is an obligation of Plum Creek Timber Company, Inc. and not the Partnership.

As of June 30, 2014, we can borrow the entire amount available under our Line of Credit, and we expect to be able to incur at least this level of additional indebtedness for the next twelve months.

Equity

Dividends. On August 4, 2014, the Board of Directors declared a dividend of \$0.44 per share, or approximately \$78 million, which will be paid on August 29, 2014 to stockholders of record on August 15, 2014. Future dividends will be determined by our Board of Directors, in its sole discretion, based on consideration of a number of factors. The primary factors considered by the Board in declaring the current dividend amount were current period and full year forecasted cash flow and operating results, as measured by Funds from Operations (defined as net income plus non-cash charges for depletion, depreciation and amortization, and the cost basis of real estate sales). In addition, the Board also considers the following factors when determining dividends: the company's capital requirements; economic conditions; tax considerations; borrowing capacity; changes in the prices of, and demand for, our products; changes in our ability to sell timberlands at attractive prices; and the appropriate timing of timber harvests, acquisition and divestiture opportunities, stock repurchases, debt repayment and other means by which the company could deliver value to its stockholders.

Share Repurchases. Plum Creek's Board of Directors has authorized a common stock repurchase program that may be increased from time to time at the Board of Directors' discretion. At June 30, 2014, \$175 million was available for share repurchases under the current Board of Directors' authorization.

Other Information

Standards Issued and Not Yet Implemented. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard is effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance, including industry-specific requirements, and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. For Plum Creek, the standard will be effective in the first quarter of 2017. The guidance permits two implementation approaches: (1) a retrospective application of the new standard with restatement of prior years; or (2) a modified retrospective basis whereby the new standard would be applied to new contracts and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings. The company is currently evaluating the impact that adoption of this standard will have on our consolidated financial statements and disclosures, and the implementation approach to be used.

Performance and Liquidity Measures (Non-GAAP Measures)

For a discussion of the factors impacting our operating performance see the discussion included in this Item under Results of Operations. For a discussion of the factors impacting our liquidity, see the discussion included in this Item under Financial Condition and Liquidity.

Adjusted EBITDA. We define Adjusted EBITDA as earnings from continuing operations, excluding Equity Earnings from the Timberland Venture, and before interest expense (including any gains or losses from extinguishment of debt), taxes, depreciation, depletion, amortization, and basis in real estate sold. In addition to including Equity Earnings from Real Estate Development Ventures in Adjusted EBITDA, we also include, as an add back to Operating Income for the Other Segment, our proportional share of depreciation, depletion, amortization, and basis in real estate sold from this equity method investment. Adjusted EBITDA is not considered a measure of financial performance under U.S. generally accepted accounting principles (U.S. GAAP) and the items excluded from Adjusted EBITDA are significant components of our consolidated financial statements.

We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period, and each business segment's contribution to that performance, by eliminating non-cash charges to earnings, which can vary significantly by business segment. These non-cash charges include timber depletion, depreciation of fixed assets and the basis in real estate sold. We also use Adjusted EBITDA as a supplemental liquidity measure because we believe it is useful in measuring our ability to generate cash. In addition, we believe Adjusted EBITDA is used by investors, lenders and rating agencies to assess our financial performance.

Second Quarter 2014 Compared to Second Quarter 2013

The following table compares Adjusted EBITDA by segment for the **quarters ended June 30** (in millions):

| Adjusted EBITDA by Segment | Quarter Ended June 30, | | Change |
|-----------------------------------|------------------------|---------------|--------------|
| | 2014 | 2013 | |
| Northern Resources | \$ 11 | \$ 13 | \$ (2) |
| Southern Resources | 52 | 37 | 15 |
| Real Estate | 70 | 47 | 23 |
| Manufacturing | 16 | 18 | (2) |
| Energy and Natural Resources | 8 | 5 | 3 |
| Other | (2) | — | (2) |
| Other Costs and Eliminations, net | (15) | (16) | 1 |
| Total Adjusted EBITDA | \$ 140 | \$ 104 | \$ 36 |

The following schedules provide a reconciliation of Adjusted EBITDA to net income and net cash from operating activities, the most directly comparable U.S. GAAP performance and liquidity measures, for the **quarters ended June 30** (in millions):

| | Quarter Ended June 30, 2014 | | | |
|---|-----------------------------|--|---------------------------|-----------------|
| | Operating Income | Depreciation, Depletion and Amortization | Basis of Real Estate Sold | Adjusted EBITDA |
| By Segment ⁽¹⁾ | | | | |
| Northern Resources | \$ 5 | \$ 6 | \$ — | \$ 11 |
| Southern Resources | 33 | 19 | — | 52 |
| Real Estate | 45 | — | 25 | 70 |
| Manufacturing | 10 | 6 | — | 16 |
| Energy and Natural Resources | 6 | 2 | — | 8 |
| Other | (3) | 1 | — | (2) |
| Other Costs and Eliminations | (17) | 1 | — | (16) |
| Other Unallocated Operating Income (Expense), net | 1 | — | — | 1 |
| Total | \$ 80 | \$ 35 | \$ 25 | \$ 140 |
| Reconciliation to Net Income ⁽²⁾ | | | | |
| Equity Earnings from Timberland Venture | 17 | | | |
| Interest Expense | (42) | | | |
| (Provision) Benefit for Income Taxes | — | | | |
| Net Income | \$ 55 | | | |
| Reconciliation to Net Cash Provided By Operating Activities ⁽¹⁾ | | | | |
| Net Cash Flows from Operations | | | \$ | 132 |
| Interest Expense | | | | 42 |
| Amortization of Debt Costs | | | | — |
| Provision / (Benefit) for Income Taxes | | | | — |
| Distributions from Timberland Venture | | | | — |
| Equity Earnings, Depletion, Amortization, and Basis of Real Estate Sold from Real Estate Development Ventures | | | | (1) |
| Deferred Income Taxes | | | | — |
| Gain on Sale of Properties and Other Assets | | | | — |
| Deferred Revenue from Long-Term Gas Leases | | | | — |
| Timber Deed Acquired | | | | — |
| Pension Plan Contributions | | | | — |
| Working Capital Changes | | | | (31) |
| Other | | | | (2) |
| Adjusted EBITDA | | | \$ | 140 |

(1) Includes Equity Loss from Real Estate Development Ventures (\$2 million) in Operating Income for the Other Segment, along with our proportional share of depreciation, depletion, amortization (\$1 million), and basis in real estate sold (\$0) from this equity method investment.

(2) Includes reconciling items not allocated to segments for financial reporting purposes.

Quarter Ended June 30, 2013

| | Operating Income | Depreciation, Depletion and Amortization | Basis of Real Estate Sold | Adjusted EBITDA |
|--|------------------|---|------------------------------|--------------------|
| By Segment | | | | |
| Northern Resources | \$ 8 | \$ 5 | \$ — | \$ 13 |
| Southern Resources | 23 | 14 | — | 37 |
| Real Estate | 30 | — | 17 | 47 |
| Manufacturing | 14 | 4 | — | 18 |
| Energy and Natural Resources | 4 | 1 | — | 5 |
| Other | — | — | — | — |
| Other Costs and Eliminations | (18) | 1 | — | (17) |
| Other Unallocated Operating Income (Expense), net | 1 | — | — | 1 |
| Total | <u>\$ 62</u> | <u>\$ 25</u> | <u>\$ 17</u> | <u>\$ 104</u> |
| Reconciliation to Net Income ⁽¹⁾ | | | | |
| Equity Earnings from Timberland Venture | 17 | | | |
| Interest Expense | (35) | | | |
| (Provision) Benefit for Income Taxes | 2 | | | |
| Net Income | <u>\$ 46</u> | | | |
| Reconciliation to Net Cash Provided By Operating Activities | | | | |
| Net Cash Flows from Operations | | | \$ | 139 |
| Interest Expense | | | | 35 |
| Amortization of Debt Costs | | | | — |
| Provision / (Benefit) for Income Taxes | | | | (2) |
| Distributions from Timberland Venture | | | | — |
| Equity Earnings, Depletion, Amortization, and Basis of Real Estate Sold from Real Estate Development Ventures | | | | — |
| Deferred Income Taxes | | | | 2 |
| Gain on Sale of Properties and Other Assets | | | | — |
| Deferred Revenue from Long-Term Gas Leases | | | | 1 |
| Timber Deed Acquired | | | | — |
| Pension Plan Contributions | | | | — |
| Working Capital Changes | | | | (65) |
| Other | | | | (6) |
| Adjusted EBITDA | | | \$ | <u>104</u> |

(1) Includes reconciling items not allocated to segments for financial reporting purposes.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

The following table compares Adjusted EBITDA by segment for the **six months ended June 30** (in millions):

| Adjusted EBITDA by Segment | Six Months Ended June 30, | | Change |
|-----------------------------------|---------------------------|---------------|-------------|
| | 2014 | 2013 | |
| Northern Resources | \$ 35 | \$ 31 | \$ 4 |
| Southern Resources | 101 | 75 | 26 |
| Real Estate | 88 | 117 | (29) |
| Manufacturing | 28 | 32 | (4) |
| Energy and Natural Resources | 16 | 10 | 6 |
| Other | (3) | — | (3) |
| Other Costs and Eliminations, net | (32) | (33) | 1 |
| Total Adjusted EBITDA | <u>\$ 233</u> | <u>\$ 232</u> | <u>\$ 1</u> |

The following schedules provide a reconciliation of Adjusted EBITDA to net income and net cash from operating activities, the most directly comparable U.S. GAAP performance and liquidity measures, for the **six months ended June 30** (in millions):

| | Six Months Ended June 30, 2014 | | | |
|---|---------------------------------------|--|------------------------------|--------------------|
| | Operating Income | Depreciation, Depletion and Amortization ⁽¹⁾ | Basis of Real Estate Sold | Adjusted EBITDA |
| By Segment ⁽¹⁾ | | | | |
| Northern Resources | \$ 21 | \$ 14 | \$ — | \$ 35 |
| Southern Resources | 64 | 37 | — | 101 |
| Real Estate | 57 | — | 31 | 88 |
| Manufacturing | 19 | 9 | — | 28 |
| Energy and Natural Resources | 12 | 4 | — | 16 |
| Other | (4) | 1 | — | (3) |
| Other Costs and Eliminations | (35) | 1 | — | (34) |
| Other Unallocated Operating Income (Expense), net | 2 | — | — | 2 |
| Total | <u>\$ 136</u> | <u>\$ 66</u> | <u>\$ 31</u> | <u>\$ 233</u> |
| Reconciliation to Net Income ⁽²⁾ | | | | |
| Equity Earnings from Timberland Venture | 32 | | | |
| Interest Expense | (83) | | | |
| (Provision) Benefit for Income Taxes | — | | | |
| Net Income | <u>\$ 85</u> | | | |
| Reconciliation to Net Cash Provided By Operating Activities ⁽¹⁾ | | | | |
| Net Cash Flows from Operations | | | \$ 189 | |
| Interest Expense | | | | 83 |
| Amortization of Debt Costs | | | | (1) |
| Provision / (Benefit) for Income Taxes | | | | — |
| Distributions from Timberland Venture | | | | (28) |
| Equity Earnings, Depletion, Amortization, and Basis of Real Estate Sold from Real Estate Development Ventures | | | | (2) |
| Deferred Income Taxes | | | | — |
| Gain on Sale of Properties and Other Assets | | | | — |
| Deferred Revenue from Long-Term Gas Leases | | | | 2 |
| Timber Deed Acquired | | | | — |
| Pension Plan Contributions | | | | — |
| Working Capital Changes | | | | (7) |
| Other | | | | (3) |
| Adjusted EBITDA | | | <u>\$</u> | <u>233</u> |

(1) Includes Equity Loss from Real Estate Development Ventures (\$3 million) in Operating Income for the Other Segment, along with our proportional share of depreciation, depletion, amortization (\$1 million), and basis in real estate sold (\$0) from this equity method investment.

(2) Includes reconciling items not allocated to segments for financial reporting purposes.

Six Months Ended June 30, 2013

| | Operating Income | Depreciation, Depletion and Amortization | Basis of Real Estate Sold | Adjusted EBITDA |
|--|------------------|---|------------------------------|--------------------|
| By Segment | | | | |
| Northern Resources | \$ 19 | \$ 12 | \$ — | \$ 31 |
| Southern Resources | 47 | 28 | — | 75 |
| Real Estate | 75 | — | 42 | 117 |
| Manufacturing | 24 | 8 | — | 32 |
| Energy and Natural Resources | 9 | 1 | — | 10 |
| Other | — | — | — | — |
| Other Costs and Eliminations | (35) | 1 | — | (34) |
| Other Unallocated Operating Income (Expense), net | 1 | — | — | 1 |
| Total | <u>\$ 140</u> | <u>\$ 50</u> | <u>\$ 42</u> | <u>\$ 232</u> |
| Reconciliation to Net Income ⁽¹⁾ | | | | |
| Equity Earnings from Timberland Venture | 31 | | | |
| Interest Expense | (70) | | | |
| (Provision) Benefit for Income Taxes | 1 | | | |
| Net Income | <u>\$ 102</u> | | | |
| Reconciliation to Net Cash Provided By Operating Activities | | | | |
| Net Cash Flows from Operations | | | \$ 140 | |
| Interest Expense | | | 70 | |
| Amortization of Debt Costs | | | (1) | |
| Provision / (Benefit) for Income Taxes | | | (1) | |
| Distributions from Timberland Venture | | | (27) | |
| Equity Earnings, Depletion, Amortization and Basis of Real Estate Sold from Real Estate Development Ventures | | | — | |
| Deferred Income Taxes | | | 1 | |
| Gain on Sale of Properties and Other Assets | | | — | |
| Deferred Revenue from Long-Term Gas Leases | | | 4 | |
| Timber Deed Acquired | | | 18 | |
| Pension Plan Contributions | | | — | |
| Working Capital Changes | | | 40 | |
| Other | | | (12) | |
| Adjusted EBITDA | | | <u>\$ 232</u> | |

(1) Includes reconciling items not allocated to segments for financial reporting purposes.

Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments

The company has no off-balance sheet debt. For information on contractual obligations, see the table Contractual Obligations in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2013 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Approximately \$3.0 billion (including \$783 million of related party obligations) of Plum Creek’s long-term debt bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in market interest rates. We also have variable rate debt that is affected by changes in market interest rates. For a discussion of our debt obligations and the fair value of the company's debt, see Notes 7 and 9 of the Notes to Consolidated Financial Statements.

The following table presents contractual principal cash flows based upon maturity dates of the company's debt obligations and the related weighted-average interest rates by expected maturity dates, along with the total fair value for the fixed and variable rate debt (in millions):

| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total | Fair Value ^(A) |
|--------------------------------------|------|--------|------|------|--------|------------|----------|---------------------------|
| June 30, 2014 | | | | | | | | |
| Fixed Rate Debt | | | | | | | | |
| <i>Third Party Obligations</i> | | | | | | | | |
| Principal Due ^(B) | \$ — | \$ 439 | \$ — | \$ — | \$ — | \$ 1,754 | \$ 2,193 | \$ 2,289 |
| Average Interest Rate ^(C) | 4.9% | 4.9% | 4.7% | 4.7% | 4.7% | 4.7% | | |
| <i>Related Party Obligations</i> | | | | | | | | |
| Principal Due | | | | | \$ 783 | | \$ 783 | \$ 911 |
| Interest Rate | | | | | 7.4% | | | |
| Variable Rate Debt ^(D) | | | | | | \$ 225 | \$ 225 | \$ 225 |

| | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter | Total | Fair Value |
|--------------------------------------|-------|------|--------|------|------|------------|----------|------------|
| June 30, 2013 | | | | | | | | |
| Fixed Rate Debt | | | | | | | | |
| <i>Third Party Obligations</i> | | | | | | | | |
| Principal Due ^(B) | \$ 76 | \$ 3 | \$ 462 | \$ 4 | \$ — | \$ 900 | \$ 1,445 | \$ 1,487 |
| Average Interest Rate ^(C) | 4.9% | 4.8% | 4.7% | 4.2% | 4.2% | 4.0% | | |
| <i>Related Party Obligations</i> | | | | | | | | |
| Principal Due | | | | | | \$ 783 | \$ 783 | \$ 936 |
| Interest Rate | | | | | | 7.4% | | |
| Variable Rate Debt | | | | | | \$ 450 | \$ 450 | \$ 450 |

- (A) The increase in fair value of our fixed rate debt compared to June 30, 2013 (excluding related party debt) was due primarily to the issuance of an \$860 million installment note and lower market interest rates, partially offset by principal repayments of \$111 million during the twelve month period. At June 30, 2014, market rates were lower compared to June 30, 2013 due to decreases in credit spreads that exceeded the increase in the corresponding treasury rates. The decrease in fair value of our variable rate debt at June 30, 2014 was due to a principal repayment of \$225 million during 2013.
- (B) Excludes unamortized discount of \$4 million and \$6 million at June 30, 2014 and 2013, respectively.
- (C) Represents the average stated interest rate of total fixed rate debt (excluding related party debt) outstanding as of June 30, 2014 and June 30, 2013.
- (D) As of June 30, 2014, the interest rate for the term credit agreement was 1.65%. Not included in the above table are borrowings under our \$700 million revolving line of credit of \$152 million. As of June 30, 2014, the weighted-average interest rate on the \$152 million of borrowings was 1.36%.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The company's management, with the participation of the company's Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), has evaluated the effectiveness of the company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the company's management, including the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), has concluded that the company's disclosure controls and procedures were effective as of the end of such period.

(b) Control over Financial Reporting

There have been no changes in the company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Prior to 2011, Plum Creek was generally subject to corporate-level tax (built-in gains tax) when the company made a taxable disposition of certain properties acquired in a 2001 merger. The built-in gains tax applied to gains recognized from such asset sales to the extent that the fair value of the property exceeded its tax basis at the merger date. Built-in gains tax was generally not payable on dispositions of property to the extent the proceeds from such dispositions were reinvested in qualifying like-kind replacement property.

The company's 2008 federal income tax return is currently being audited by the Internal Revenue Service ("IRS"). The IRS has proposed an adjustment to the company's U.S. federal income tax treatment of the Timberland Venture formation transaction, which occurred on October 1, 2008, on the basis that the transfer of the timberlands to Southern Diversified Timber, LLC was a taxable transaction to the company at the time of the transfer rather than a nontaxable capital contribution to the Timberland Venture. We have filed a protest with IRS Appeals.

If the IRS's position is upheld on administrative or judicial appeal, it could result in a maximum built-in gains tax liability of approximately \$100 million. In addition, the company could be required to accelerate the distribution to its stockholders of up to \$600 million of gain from the transaction. The company expects that as much as 80% of any such distribution could be made with the company's common stock, and stockholders would be subject to tax on the distribution at the applicable capital gains tax rate. The company would also be required to pay interest, which could be substantial, and, if applicable, penalties.

We believe the transfer of the timberlands was a nontaxable contribution to the Timberland Venture and not a taxable transaction. We have not accrued income taxes for financial reporting purposes with respect to this matter and do not believe it is reasonably possible any material accrual will be made within the next year. We are confident in our position and believe that the proposed re-characterization of the Timberland Venture formation transaction by the IRS will ultimately be unsuccessful. We intend to vigorously contest this re-characterization.

ITEM 1A. RISK FACTORS

There have been no material changes to the company's Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on February 28, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

List of Exhibits

Each exhibit set forth below in the Index to Exhibits is filed as a part of this report. All exhibits not filed herewith are incorporated herein by reference to a prior filing as indicated. Exhibits designated by a positive sign (“+”) indicate management contracts or compensatory plans or arrangements.

The agreements included as exhibits to this report are included to provide information about their terms and not to provide any other factual or disclosure information about the company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the agreement and:

- should not be treated as categorical statements of fact, but rather as a way of allocating the risk among the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

INDEX TO EXHIBITS

| Exhibit Designation | Nature of Exhibit |
|----------------------------|--|
| 2.1 | Contribution Agreement dated as of August 22, 2008 between Plum Creek Timber Operations I, LLC and TCG Member, LLC (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed August 27, 2008). |
| 2.2 | Limited Liability Company Agreement of Southern Diversified Timber, LLC dated as of October 1, 2008 between Plum Creek Timber Operations I, LLC and TCG Member, LLC (Exhibit 2.2 to Form 8-K, File No. 1-10239, filed October 7, 2008). |
| 2.3 | Master Purchase and Sale Agreement, dated October 28, 2013, by and among MeadWestvaco Corporation, MWV Community Development and Land Management, LLC and MWV Community Development, Inc., as sellers, and Plum Creek Timberlands, L.P., Plum Creek Marketing, Inc., Plum Creek Land Company and Highland Mineral Resources, LLC, as purchasers (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed October 29, 2013). |
| 3.1 | Restated Certificate of Incorporation of Plum Creek Timber Company, Inc., as amended (Exhibit 3.1 to Form 10-Q, File No. 1-10239, for the quarter ended June 30, 2009). |
| 3.2 | Amended and Restated By-laws of Plum Creek Timber Company, Inc., as amended (Exhibit 3.2 to Form 10-K, File No. 1-10239, for the year ended December 31, 2010). |
| 3.3 | Amended and Restated Agreement of Limited Partnership of Plum Creek Timberlands, L.P. (Exhibit 3.3 to Form 10-K, File No. 1-10239, for the year ended December 31, 2010). |
| 12.1 | Statements regarding computation of ratios. |
| 31.1 | Certification of Rick R. Holley pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of David W. Lambert pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of Rick R. Holley, Chief Executive Officer, pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of David W. Lambert, Senior Vice President and Chief Financial Officer, pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PLUM CREEK TIMBER COMPANY, INC.

(Registrant)

By: /s/ DAVID W. LAMBERT

DAVID W. LAMBERT

Senior Vice President and Chief Financial Officer
(Principal Financial Officer and
Duly Authorized Officer)

Date: August 5, 2014

Plum Creek Timber Company, Inc.
Ratio of Earnings to Fixed Charges

| (Dollars in Millions) | Years Ended December 31, | | | | | |
|---|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 6 Months Ended June 30, 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Consolidated Pretax Income from Continuing Operations | \$ 56 | \$ 151 | \$ 141 | \$ 136 | \$ 146 | \$ 150 |
| Fixed Charges (per below) | 85 | 144 | 144 | 144 | 143 | 153 |
| Distributed Income of Equity Investees | 29 | 56 | 56 | 56 | 57 | 53 |
| Interest Capitalized | — | — | (1) | (1) | (1) | (1) |
| Earnings | <u>\$ 170</u> | <u>\$ 351</u> | <u>\$ 340</u> | <u>\$ 335</u> | <u>\$ 345</u> | <u>\$ 355</u> |
| Interest and Other Financial Charges | \$ 83 | \$ 141 | \$ 142 | \$ 141 | \$ 140 | \$ 150 |
| Interest Portion of Rental Expense | 2 | 3 | 2 | 3 | 3 | 3 |
| Fixed Charges | <u>\$ 85</u> | <u>\$ 144</u> | <u>\$ 144</u> | <u>\$ 144</u> | <u>\$ 143</u> | <u>\$ 153</u> |
| Ratio of Earnings to Fixed Charges | <u>2.0</u> | <u>2.4</u> | <u>2.4</u> | <u>2.3</u> | <u>2.4</u> | <u>2.3</u> |

Plum Creek Timberlands, L.P.
Ratio of Earnings to Fixed Charges

| (Dollars in Millions) | Years Ended December 31, | | | | | |
|---|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 6 Months Ended June 30, 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Consolidated Pretax Income from Continuing Operations | \$ 85 | \$ 209 | \$ 199 | \$ 194 | \$ 204 | \$ 208 |
| Fixed Charges (per below) | 56 | 86 | 86 | 86 | 85 | 95 |
| Distributed Income of Equity Investees | 29 | 56 | 56 | 56 | 57 | 53 |
| Interest Capitalized | — | — | (1) | (1) | (1) | (1) |
| Earnings | <u>\$ 170</u> | <u>\$ 351</u> | <u>\$ 340</u> | <u>\$ 335</u> | <u>\$ 345</u> | <u>\$ 355</u> |
| Interest and Other Financial Charges | \$ 54 | \$ 83 | \$ 84 | \$ 83 | \$ 82 | \$ 92 |
| Interest Portion of Rental Expense | 2 | 3 | 2 | 3 | 3 | 3 |
| Fixed Charges | <u>\$ 56</u> | <u>\$ 86</u> | <u>\$ 86</u> | <u>\$ 86</u> | <u>\$ 85</u> | <u>\$ 95</u> |
| Ratio of Earnings to Fixed Charges | <u>3.0</u> | <u>4.1</u> | <u>4.0</u> | <u>3.9</u> | <u>4.1</u> | <u>3.7</u> |

During 2008, PC Ventures I, LLC (“PC Ventures”), a 100% wholly-owned subsidiary of Plum Creek Timber Company, Inc., made a \$783 million capital contribution to Plum Creek Timberlands, L.P. in exchange for a Series T-1 Redeemable Preferred Limited Partnership Interest (“Series T-1 Preferred Interest”), a preferred interest in Plum Creek Timberlands, L.P. The Series T-1 Preferred Interest provides for a return of 7.375% per annum (approximately \$58 million) on its contributed capital of \$783 million. In the computation of the ratio of earnings to fixed charges for Plum Creek Timberlands, L.P. above, the Series T-1 Preferred Interest is not subtracted from Consolidated Pretax Income from Continuing Operations and has been excluded from the calculation of Fixed Charges because these transactions are between affiliated entities. Further discussion of the Series T-1 Preferred Interest in Plum Creek Timberlands, L.P. can be found in the audited consolidated financial statements of Plum Creek Timberlands, L.P. for the three years ended December 31, 2013, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 28, 2014.

**Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, **Rick R. Holley**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Plum Creek Timber Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2014

By: /s/ RICK R. HOLLEY

RICK R. HOLLEY

Chief Executive Officer

**Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, **David W. Lambert**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Plum Creek Timber Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2014

By: /s/ DAVID W. LAMBERT

DAVID W. LAMBERT

Senior Vice President and Chief Financial
Officer

**Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Plum Creek Timber Company, Inc. (the "Company") for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Rick R. Holley, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 5, 2014

By: /s/ RICK R. HOLLEY

RICK R. HOLLEY

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Plum Creek Timber Company, Inc. (the "Company") for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David W. Lambert, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 5, 2014

By: /s/ DAVID W. LAMBERT

DAVID W. LAMBERT

Senior Vice President and Chief Financial
Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.