

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, 2005

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)

999 Third Avenue, Seattle, Washington 98104-4096 Telephone: (206) 467-3600

Organized in the State of Delaware I.R.S. Employer Identification No. 91-1912863

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 is an accelerated filer (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 22, 2005, was 183,968,207.

**PLUM CREEK TIMBER COMPANY, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the Quarter ended June 30, 2005**

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# PART I

## ITEM 1. FINANCIAL STATEMENTS

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

(In Millions, Except per Share Amounts)	Quarter Ended June 30,	
	2005	2004
Revenues:		
Timber	\$ 192	\$ 151
Real Estate	36	50
Manufacturing	128	134
Other	2	6
Total Revenues	<u>358</u>	<u>341</u>
Costs and Expenses:		
Cost of Goods Sold:		
Timber	99	80
Real Estate	16	38
Manufacturing	117	110
Other	--	2
Total Cost of Goods Sold	<u>232</u>	<u>230</u>
Selling, General and Administrative	<u>24</u>	<u>22</u>
Total Costs and Expenses	<u>256</u>	<u>252</u>
Gain on Sale of Other Assets	<u>--</u>	<u>5</u>
Operating Income	102	94
Interest Expense, net	<u>27</u>	<u>27</u>
Income before Income Taxes	75	67
Provision for Income Taxes	<u>6</u>	<u>10</u>
Net Income	<u>\$ 69</u>	<u>\$ 57</u>
Net Income per Share		
– Basic	\$ 0.37	\$ 0.31
– Diluted	\$ 0.37	\$ 0.31
Dividends Declared per Common Share Outstanding	\$ 0.38	\$ 0.35
Weighted Average Number of Shares Outstanding		
– Basic	184.0	183.3
– Diluted	184.6	184.0

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except per Share Amounts)	<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
Revenues:		
Timber	\$ 392	\$ 335
Real Estate	104	238
Manufacturing	257	256
Other	5	9
Total Revenues	<b>758</b>	<b>838</b>
Costs and Expenses:		
Cost of Goods Sold:		
Timber	201	173
Real Estate	40	124
Manufacturing	235	218
Other	1	3
Total Cost of Goods Sold	<b>477</b>	<b>518</b>
Selling, General and Administrative	<b>45</b>	<b>40</b>
Total Costs and Expenses	<b>522</b>	<b>558</b>
Gain on Sale of Other Assets	<b>--</b>	<b>5</b>
Operating Income	<b>236</b>	<b>285</b>
Interest Expense, net	<b>54</b>	<b>56</b>
Income before Income Taxes	<b>182</b>	<b>229</b>
Provision for Income Taxes	<b>11</b>	<b>17</b>
Income from Continuing Operations	<b>171</b>	<b>212</b>
Gain on Sale of Properties, net of tax	<b>20</b>	<b>--</b>
Net Income	<b>\$ 191</b>	<b>\$ 212</b>
Income from Continuing Operations per Share		
– Basic	\$ 0.93	\$ 1.16
– Diluted	\$ 0.93	\$ 1.15
Net Income per Share		
– Basic	\$ 1.04	\$ 1.16
– Diluted	\$ 1.03	\$ 1.15
Dividends Declared per Common Share Outstanding	\$ 0.76	\$ 0.70
Weighted Average Number of Shares Outstanding		
– Basic	<b>183.9</b>	<b>183.2</b>
– Diluted	<b>184.6</b>	<b>184.0</b>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except per Share Amounts)	June 30, 2005	December 31, 2004
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 384	\$ 347
Restricted Advance from Customer	15	4
Accounts Receivable	49	40
Like-Kind Exchange Funds Held in Escrow	44	11
Inventories	62	71
Deferred Tax Asset	11	10
Other Current Assets	18	16
	<u>583</u>	<u>499</u>
Timber and Timberlands – Net	3,623	3,590
Property, Plant and Equipment – Net	245	253
Investment in Grantor Trusts	29	29
Other Assets	9	7
	<u>9</u>	<u>7</u>
Total Assets	<u>\$ 4,489</u>	<u>\$ 4,378</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 31	\$ 32
Short-Term Debt	50	--
Accounts Payable	45	41
Interest Payable	28	28
Wages Payable	15	25
Taxes Payable	22	22
Deferred Revenue	35	16
Other Current Liabilities	12	20
	<u>238</u>	<u>184</u>
Long-Term Debt	1,357	1,405
Line of Credit	495	448
Deferred Tax Liability	44	45
Other Liabilities	57	56
	<u>57</u>	<u>56</u>
Total Liabilities	<u>2,191</u>	<u>2,138</u>
Commitments and Contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock, \$0.01 par value, authorized shares – 75.0, outstanding – none	--	--
Common Stock, \$0.01 par value, authorized shares – 300.6, issued (including Treasury Stock) – 186.0 at June 30, 2005, and 185.7 at December 31, 2004	2	2
Additional Paid-In Capital	2,174	2,168
Retained Earnings	162	111
Treasury Stock, at cost, Common shares – 2.0	(43)	(43)
Other Equity	3	2
	<u>2,298</u>	<u>2,240</u>
Total Stockholders' Equity	<u>2,298</u>	<u>2,240</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,489</u>	<u>\$ 4,378</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	<u>Six Months Ended June 30,</u>	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 191	\$ 212
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	55	51
Basis of Real Estate Sold (Includes Impairment Losses of \$19 in 2004)	28	114
Deferred Income Taxes	(1)	12
Gain on Sales of Properties and Other Assets	(21)	(5)
Working Capital Changes	(24)	10
Other	--	(3)
Net Cash Provided By Operating Activities	<u>228</u>	<u>391</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property Additions (Excluding Timberland Acquisitions)	(28)	(32)
Timberlands Acquired (Including Tax-Deferred Exchange Proceeds)	(80)	(39)
Proceeds from Sales of Properties and Other Assets (Including Tax-Deferred Exchange Proceeds)	5	27
Net Cash Used In Investing Activities	<u>(103)</u>	<u>(44)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends	(140)	(128)
Borrowings under Line of Credit	1,140	1,227
Repayments of Borrowings under Line of Credit	(1,093)	(1,355)
Proceeds from Issuance of Short-term Debt	50	--
Principal Payments and Retirement of Long-term Debt	(49)	(32)
Proceeds from Stock Option Exercises	4	3
Net Cash Used In Financing Activities	<u>(88)</u>	<u>(285)</u>
Increase In Cash and Cash Equivalents	37	62
Cash and Cash Equivalents:		
Beginning of Period	<u>347</u>	<u>267</u>
End of Period	<u>\$ 384</u>	<u>\$ 329</u>

*See accompanying Notes to Consolidated Financial Statements*

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

**Note 1. Basis of Presentation**

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. At June 30, 2005, the company owned and managed approximately 7.7 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned and operated ten wood product conversion facilities in the Northwest United States.

Plum Creek has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code and, as such, is generally not subject to 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, and the development and/or sales of some of our higher and better use timberlands. The effective tax rate is lower than the federal statutory corporate rate due to Plum Creek’s status as a REIT. (See Note 4 of the Notes to Financial Statements of Plum Creek Timber Company, Inc.)

Intercompany transactions and accounts have been eliminated in consolidation. All transactions are denominated in United States dollars. Certain prior period amounts have been reclassified to conform to the second quarter of 2005 presentation. The reclassifications had no impact on operating income or net income.

The financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by accounting principles generally accepted in the United States of America to be included in a full set of financial statements. The balance sheet at December 31, 2004, has been derived from the audited 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 2004 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. 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.

**New Accounting Pronouncements.** In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (“SFAS No. 123(R)”), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123(R) must be adopted for fiscal years beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS No. 123(R) on January 1, 2006.

The company adopted the fair-value-based method of accounting for share-based payments effective January 1, 2002, using the prospective method described in SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. Currently, the company uses the Black-Scholes-Merton formula to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of SFAS No. 123(R) on January 1, 2006. The company does not expect the expense for stock options computed in accordance with SFAS No. 123(R) to be materially different than the expense currently computed under SFAS No. 123.

SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This

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

requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amounts of operating cash flows recognized in prior periods for such excess tax deductions were immaterial.

In addition to stock options, the company also grants restricted stock, and dividend equivalents and value management awards, a portion of which may be payable in the company's stock. Grants of both dividend equivalents and value management awards represent awards that are classified and accounted for as liabilities under SFAS No. 123(R). As a result, the expense recognized over the performance period for both dividend equivalents and value management awards will equal the fair value of an award as of the last day of the performance period times the number of awards that are earned. Furthermore, SFAS No. 123(R) requires the quarterly expense recognized during the performance period to be based on the fair value of dividend equivalents and value management awards as of the end of the most recent quarter. The company does not expect the total expense recognized over the performance period for dividend equivalents and value management awards computed in accordance with SFAS No. 123(R) to be materially different than the total expense currently computed under SFAS No. 123. However, as a result of the requirement under SFAS No. 123(R) to base the quarterly expense on the current fair value of dividend equivalent and value management awards, the quarterly expense recognized under SFAS No. 123(R) could be materially different than the quarterly expense we currently recognize under SFAS No. 123.

**Note 2. Earnings Per Share**

The following tables set 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,	
	2005	2004
Net Income	<b>\$ 69</b>	\$ 57
Denominator for basic earnings per share	<b>184.0</b>	183.3
Effect of dilutive securities – stock options	<b>0.5</b>	0.6
Effect of dilutive securities – restricted stock, dividend equivalents, and value management plan	<b>0.1</b>	0.1
Denominator for diluted earnings per share – adjusted for dilutive securities	<b>184.6</b>	184.0
Per Share Amounts:		
Net Income – Basic	<b>\$ 0.37</b>	\$ 0.31
Net Income – Diluted	<b>\$ 0.37</b>	\$ 0.31

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

	Six Months Ended June 30,	
	2005	2004
Income from Continuing Operations	\$ 171	\$ 212
Gain on Sales of Properties, net of tax	20	--
Net Income	<u>\$ 191</u>	<u>\$ 212</u>
Denominator for basic earnings per share	183.9	183.2
Effect of dilutive securities – stock options	0.6	0.6
Effect of dilutive securities – restricted stock, dividend equivalents, and value management plan	0.1	0.2
Denominator for diluted earnings per share – adjusted for dilutive securities	<u>184.6</u>	<u>184.0</u>
Per Share Amounts:		
Income from Continuing Operations – Basic	\$ 0.93	\$ 1.16
Income from Continuing Operations – Diluted	\$ 0.93	\$ 1.15
Gain on Sale of Properties, net of tax – Basic	\$ 0.11	\$ --
Gain on Sale of Properties, net of tax – Diluted	\$ 0.11	\$ --
Net Income – Basic	\$ 1.04	\$ 1.16
Net Income – Diluted	\$ 1.03	\$ 1.15

Antidilutive options excluded for certain periods from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares were as follows for the **quarterly and six-month periods ended June 30** (shares in millions):

	Quarter Ended June 30,	
	2005	2004
Number of options	0.5	0.7
Range of prices	\$32.28 to \$37.49	\$30.91 to \$32.87
Expiration on or before	February 2015	April 2014
	Six Months Ended June 30,	
	2005	2004
Number of options	0.5	0.8
Range of prices	\$32.28 to \$37.49	\$29.70 to \$32.87
Expiration on or before	February 2015	April 2014

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

**Note 3. Timber and Timberlands, Property, Plant and Equipment, and Inventory**

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

	June 30, 2005	December 31, 2004
Timber and logging roads – net	\$ 2,373	\$ 2,367
Timberlands	1,250	1,223
Timber and Timberlands – net	<u>\$ 3,623</u>	<u>\$ 3,590</u>

Property, plant and equipment consisted of the following (in millions):

	June 30, 2005	December 31, 2004
Land, buildings and improvements	\$ 80	\$ 80
Machinery and equipment	286	282
	<u>366</u>	362
Accumulated depreciation	(121)	(109)
Property, Plant and Equipment – net	<u>\$ 245</u>	<u>\$ 253</u>

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

	June 30, 2005	December 31, 2004
Raw materials (logs)	\$ 11	\$ 24
Work-in-process	4	4
Finished goods	36	32
	<u>51</u>	60
Supplies	11	11
Total	<u>\$ 62</u>	<u>\$ 71</u>

**Note 4. 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 is generally not subject to 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. As a consequence of the October 6, 2001, merger with The Timber Company, which involved merging a taxable entity into a nontaxable entity, Plum Creek will generally be subject to corporate-level tax (built-in gains tax) if the company makes a taxable disposition of certain property acquired in the merger with The Timber Company within the ten-year period following the merger date. The built-in-gains tax applies to gains from such asset sales to the extent that the fair value of the property exceeds its tax basis at the merger date. The built-in-gains tax is generally deferred on dispositions of property to the extent the proceeds from such dispositions are reinvested in qualifying like-kind replacement property. Furthermore, the company conducts certain non-REIT activities through various taxable REIT subsidiaries, which are subject to corporate-

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

level income tax. These activities include the company's manufacturing operations, the harvesting and sale of logs, and the development and/or sale of some of the company's higher and better use timberlands.

At June 30, 2005, the company had \$74 million of proceeds held in a like-kind exchange escrow account. It is the company's policy to record the built-in gains tax associated with such proceeds unless management believes it is probable that the proceeds will be successfully reinvested in a qualifying like-kind exchange transaction. Management has concluded that it is not probable that \$44 million of the \$74 million will be reinvested within the statutory 180-day reinvestment period; as a result, the company has recorded a built-in gains tax expense of \$1 million for the quarter and \$4 million for the six months ended June 30, 2005. A portion of the accrued built-in gains tax may be reversed in a subsequent period if the proceeds are successfully reinvested within the required period. No built-in gains tax expense was recognized during the quarter or six months ended June 30, 2004.

It is the company's policy to present like-kind exchange funds as a current asset in our balance sheet under the description "Like-Kind Exchange Funds Held in Escrow" to the extent management concludes it is not probable that the funds will be successfully reinvested, and to present as "Timber and Timberlands - Net" in our balance sheet to the extent management concludes it is probable the funds will be successfully reinvested. The presentation in the cash flow statement is consistent with the balance sheet presentation for escrow funds from the sale of timberlands (i.e., escrow funds not expected to be successfully reinvested are presented as a negative adjustment to "Working Capital Changes" under cash provided by operating activities and funds expected to be successfully reinvested are presented as "Timberlands Acquired" under investing activities). However, escrow funds associated with the sale of other assets, such as our first quarter sale of coal reserves, are eliminated from cash provided by operations (by inclusion in "Gain on Sales of Properties") in the quarter in which the property is sold, and are reflected as investing activity in the quarter the proceeds are reinvested or received from the escrow fund.

**Note 5. Borrowings**

The company has a \$650 million facility revolving line of credit maturing on January 15, 2009. As of June 30, 2005, the interest rate for the line of credit was LIBOR plus 0.875%, which included facility fees. This rate can range from LIBOR plus 0.75% to LIBOR plus 1.625% depending on our financial results. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$650 million, including up to \$50 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. As of June 30, 2005, we had \$495 million of borrowings and \$6 million of standby letters of credit outstanding; \$149 million remained available for borrowing under our line of credit. On July 1, 2005, \$376 million of the borrowings under our line of credit was repaid.

In April 2005, Plum Creek retired its \$20 million variable rate senior note bearing interest at 3-month LIBOR plus 1.445% due in 2008 prior to its maturity using funds available under the company's revolving line of credit. Furthermore, in June 2005, the company made principal payments totaling \$27 million on borrowings due under the company's 1989 senior and first mortgage notes bearing interest at 11.125%.

In May 2005, the company entered into a \$50 million one-year term loan agreement to finance the acquisition of approximately 35,000 acres of Florida timberlands. As of June 30, 2005, the interest rate for the term loan was LIBOR plus 0.5%. This rate can range from LIBOR plus 0.4% to LIBOR plus 1.075% depending on our financial results.

Under the company's shelf registration statement filed with the Securities and Exchange Commission in 2004, the company from time to time may offer and sell any combination of preferred stock, common stock, depositary shares, warrants and guarantees up to a total amount of \$400 million, and Plum Creek Timberlands, L.P., the company's wholly owned operating partnership, may from time to time offer and sell debt securities of up to an additional total amount of \$400 million. As of June 30, 2005, the entire amounts for issuance of equity and debt securities remained available under the shelf registration statement.

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

**Note 6. Capital**

The changes in the company's capital accounts were as follows during **2005** (in millions):

	<u>Common Stock</u>		Paid-in Capital	Retained Earnings	Treasury Stock	Other Equity	Total Equity
	Shares	Dollars					
<b>January 1, 2005</b>	183.7	\$ 2	\$ 2,168	\$ 111	\$ (43)	\$ 2	\$ 2,240
Net Income				122			122
Dividends				(70)			(70)
Stock Option Exercises	0.2		3				3
Shares Issued under Stock Incentive Plans <sup>(A)</sup>			2			(1)	1
Other			1			1	2
<b>March 31, 2005</b>	<b>183.9</b>	<b>\$ 2</b>	<b>\$ 2,174</b>	<b>\$ 163</b>	<b>\$ (43)</b>	<b>\$ 2</b>	<b>\$ 2,298</b>
Net Income				69			69
Dividends				(70)			(70)
Stock Option Exercises	0.1		1				1
Other			(1)			1	--
<b>June 30, 2005</b>	<b>184.0</b>	<b>\$ 2</b>	<b>\$ 2,174</b>	<b>\$ 162</b>	<b>\$ (43)</b>	<b>\$ 3</b>	<b>\$ 2,298</b>

(A) During the first quarter of 2005, Plum Creek issued approximately 32,000 shares of common stock as payment for Value Management Awards and Dividend Equivalents, and approximately 23,000 shares of restricted stock under the terms of the company's Stock Incentive Plan. (See Note 8 of the Notes to Financial Statements.)

**Note 7. Employee Pension Plans**

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

	<u>Quarter Ended June 30,</u>	
	2005	2004
Service cost	\$ 1	\$ 2
Interest cost	2	2
Expected return on plan assets	(1)	(2)
Net periodic benefit cost	<u>\$ 2</u>	<u>\$ 2</u>
	<u>Six Months Ended June 30,</u>	
	2005	2004
Service cost	\$ 3	\$ 3
Interest cost	3	3
Expected return on plan assets	(2)	(3)
Net periodic benefit cost	<u>\$ 4</u>	<u>\$ 3</u>

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

**Note 8. Stock-Based Compensation**

The company expenses stock-based employee compensation (stock options, value management awards, dividend equivalents and restricted stock) in accordance with the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Under the prospective method adopted by the company in 2002, stock option employee compensation cost is recognized using the fair value method for all employee awards granted, modified, or settled on or after January 1, 2002. (See “New Accounting Pronouncements” in Note 1 of the Notes to Financial Statements.)

The company recognized stock-based compensation expense of approximately \$3 million each during the quarters ended June 30, 2005 and 2004. Stock-based compensation expense for each of the six-month periods ended June 30, 2005 and 2004, totaled approximately \$5 million. Had the company elected to use the fair value method of accounting for all stock-based compensation, net income for the quarters and six-month periods ended June 30, 2005 and 2004, would not differ from amounts reported.

During the first quarter of 2005, Plum Creek paid \$8 million in cash and issued approximately 32,000 shares of common stock as payment for Value Management Awards and Dividend Equivalents under the terms of the company’s Stock Incentive Plan. Payments for Value Management Awards during the first quarter of 2004 consisted of \$2 million in cash and approximately 101,000 shares of Plum Creek common stock. No Dividend Equivalents were paid in 2004.

**Note 9. Commitments and Contingencies**

**Contingencies.** The company is subject to regulations regarding forest and harvest practices and is, from time to time, involved in various legal proceedings, including environmental matters, incidental to its business. Moreover, the company is currently in the early stages of several lawsuits related to property damage caused by various sources, including fire and flooding (“Property Damage Litigations”). The company believes it is more likely than not that the Property Damage Litigations will be resolved favorably. However, the final outcome of any legal proceeding is subject to many variables and cannot be predicted with any degree of certainty. The company believes that there are meritorious defenses for these claims and is vigorously defending these matters. However, if the company is not successful in defending the claims, we believe the aggregate losses for the Property Damage Litigations would range between \$0 and \$12 million.

In consideration of the inherent difficulty of predicting the outcome of such matters, we cannot state what the eventual outcome of pending legal claims against the company will be. Based on current knowledge, management does not believe that liabilities, if any, arising from any single pending proceeding will have a material adverse effect on Plum Creek’s financial position, results of operations or liquidity. However, the possibility of a material adverse impact on the company’s operating results for a particular quarterly period exists in the event that an unfavorable outcome in multiple proceedings were to occur within the same quarterly reporting period, depending, among other factors, on the level of the company’s income for such period.

**Environmental Contingencies.** In connection with the October 6, 2001, merger with The Timber Company, Plum Creek agreed to indemnify Georgia-Pacific for substantially all of the liabilities attributed to The Timber Company. In 2003, Georgia-Pacific provided Plum Creek with information about the existence of mine tailings and approximately 4.5 billion gallons of acidic surface water on approximately 90 acres in Hot Spring County, Arkansas, on former Georgia-Pacific properties. Barite mining and related activities were conducted on the site between 1939 and 1981 in part by lessees of an entity that was acquired by Georgia-Pacific. The environmental issues associated with this site are currently being investigated and no remediation plan has yet been approved. There is not sufficient information, therefore, to adequately assess the costs, if any, associated with this matter or Georgia-Pacific’s degree of responsibility. No amounts have been accrued for this potential liability, as Plum Creek’s liability in this matter cannot be reasonably determined at this time. Furthermore, to the extent Plum Creek is required to indemnify Georgia-Pacific for its share of the remediation costs, Plum Creek may be able

**PLUM CREEK TIMBER COMPANY, INC.**  
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to recover a portion of its cost from Georgia-Pacific's insurance policy, or indemnity obligations of various lessees that conducted mining operations on the property, or both.

**Note 10. 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 <sup>(A)</sup>	Manu- factured Products	Other <sup>(B)</sup>	Total
<b>Quarter Ended June 30, 2005</b>						
External revenues	\$ 57	\$ 135	\$ 36	\$ 128	\$ 2	\$ 358
Intersegment revenues	14	--	--	--	--	14
Depreciation, depletion and amortization	6	13	--	7	--	26
Operating income	20	63	20	9	2	114
<b>Quarter Ended June 30, 2004</b>						
External revenues	\$ 47	\$ 104	\$ 50	\$ 134	\$ 6	\$ 341
Intersegment revenues	15	--	--	--	--	15
Depreciation, depletion and amortization	6	11	--	7	--	24
Operating income	16	45	12	23	4	100
	Northern Resources	Southern Resources	Real Estate <sup>(A)</sup>	Manu- factured Products	Other <sup>(B)</sup>	Total
<b>Six Months Ended June 30, 2005</b>						
External revenues	\$ 126	\$ 266	\$ 104	\$ 257	\$ 5	\$ 758
Intersegment revenues	33	--	--	--	--	33
Depreciation, depletion and amortization	12	26	--	15	--	53
Operating income	49	127	64	17	4	261
<b>Six Months Ended June 30, 2004</b>						
External revenues	\$ 115	\$ 220	\$ 238	\$ 256	\$ 9	\$ 838
Intersegment revenues	42	--	--	--	--	42
Depreciation, depletion and amortization	14	23	--	14	--	51
Operating income	48	101	114	34	6	303

(A) Management estimates that included in Plum Creek's 7.7 million acres of timberlands are approximately 1.3 million acres of higher and better use timberlands and approximately 1.0 million acres of non-strategic timberlands. The higher and better use timberlands are expected to be sold over the next 15 years for conservation, residential or recreational purposes. The non-strategic timberlands, which consist of large blocks as well as smaller tracts, are expected to be sold over the next five to ten years. In the meantime, these timberlands continue to be used productively in our business of growing and selling timber. Sales of large, non-strategic timberlands totaled \$15 million (approximately 51,000 acres) for the second quarter of

**PLUM CREEK TIMBER COMPANY, INC.**  
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2004, and \$133 million (approximately 255,000 acres) for the six months ended June 30, 2004. There were no sales of large, non-strategic timberlands during the quarter or six months ended June 30, 2005.

During the quarter and six months ended June 30, 2004, the Real Estate segment recorded impairment losses of \$3 million and \$19 million, respectively, as a part of cost of goods sold in connection with proposed sales of timberlands. There were no impairment losses incurred in the quarter or six months ended June 30, 2005; however, a previously recognized impairment loss of \$1 million was reversed during the first quarter of 2005 due to a revised estimate of fair value.

**(B)** During the first quarter of 2005, Plum Creek sold its remaining coal reserves for total proceeds of \$22 million. The net gain from this sale, after reducing the proceeds for \$1 million costs of sales and \$1 million applicable income taxes, was \$20 million, which has been reported in our income statement as a separate line item below Income from Continuing Operations. Prior to the sale, substantially all of the coal reserves were subject to long-term mineral leases; the annual revenue and operating income from such mineral leases were approximately \$3 million.

A reconciliation of total 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,	
	2005	2004
Total segment operating income	\$ 114	\$ 100
Interest expense, net	(27)	(27)
Corporate and other unallocated expenses	(12)	(11)
Gain on sale of other assets	--	5
Income before income taxes	<u>\$ 75</u>	<u>\$ 67</u>
	Six Months Ended June 30,	
	2005	2004
Total segment operating income	\$ 261	\$ 303
Interest expense, net	(54)	(56)
Corporate and other unallocated expenses	(25)	(23)
Gain on sale of other assets	--	5
Income before income taxes	<u>\$ 182</u>	<u>\$ 229</u>

**Note 11. Subsequent Event**

On August 2, 2005, the Board of Directors authorized the company to make a dividend payment of \$0.38 per share, or approximately \$70 million, which will be paid on August 31, 2005, to stockholders of record on August 17, 2005.

## ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

The following consolidated interim financial statements relate 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 August of 2004 pursuant to which Plum Creek Timberlands, L.P. has registered and from time to time may offer and sell up to \$400 million of its debt securities.

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

(In Millions)	<u>Quarter Ended June 30,</u>	
	2005	2004
Revenues:		
Timber	\$ 192	\$ 151
Real Estate	36	50
Manufacturing	128	134
Other	2	6
Total Revenues	<u>358</u>	<u>341</u>
Costs and Expenses:		
Cost of Goods Sold:		
Timber	99	80
Real Estate	16	38
Manufacturing	117	110
Other	--	2
Total Cost of Goods Sold	<u>232</u>	<u>230</u>
Selling, General and Administrative	<u>24</u>	<u>22</u>
Total Costs and Expenses	<u>256</u>	<u>252</u>
Gain on Sale of Other Assets	<u>--</u>	<u>5</u>
Operating Income	102	94
Interest Expense, net	<u>27</u>	<u>27</u>
Income before Income Taxes	75	67
Provision for Income Taxes	<u>6</u>	<u>10</u>
Net Income	<u>\$ 69</u>	<u>\$ 57</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	<u>Six Months Ended June 30,</u>	
	2005	2004
Revenues:		
Timber	\$ 392	\$ 335
Real Estate	104	238
Manufacturing	257	256
Other	5	9
Total Revenues	<u>758</u>	<u>838</u>
Costs and Expenses:		
Cost of Goods Sold:		
Timber	201	173
Real Estate	40	124
Manufacturing	235	218
Other	1	3
Total Cost of Goods Sold	<u>477</u>	<u>518</u>
Selling, General and Administrative	<u>45</u>	<u>40</u>
Total Costs and Expenses	<u>522</u>	<u>558</u>
Gain on Sale of Other Assets	<u>--</u>	<u>5</u>
Operating Income	236	285
Interest Expense, net	<u>54</u>	<u>56</u>
Income before Income Taxes	182	229
Provision for Income Taxes	<u>11</u>	<u>17</u>
Income from Continuing Operations	171	212
Gain on Sale of Properties, net of tax	<u>20</u>	<u>--</u>
Net Income	<u>\$ 191</u>	<u>\$ 212</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	June 30, 2005	December 31, 2004
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 384	\$ 347
Restricted Advance from Customer	15	4
Accounts Receivable	49	40
Like-Kind Exchange Funds Held in Escrow	44	11
Inventories	62	71
Deferred Tax Asset	11	10
Other Current Assets	15	14
	<u>580</u>	<u>497</u>
Timber and Timberlands – Net	3,623	3,590
Property, Plant and Equipment – Net	245	253
Investment in Grantor Trusts	42	41
Other Assets	10	8
	<u>10</u>	<u>8</u>
Total Assets	<u>\$ 4,500</u>	<u>\$ 4,389</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 31	\$ 32
Short-Term Debt	50	--
Accounts Payable	45	41
Interest Payable	28	28
Wages Payable	15	25
Taxes Payable	22	22
Deferred Revenue	35	16
Other Current Liabilities	12	20
	<u>238</u>	<u>184</u>
Long-Term Debt	1,357	1,405
Line of Credit	495	448
Deferred Tax Liability	44	45
Other Liabilities	70	69
	<u>70</u>	<u>69</u>
Total Liabilities	<u>2,204</u>	<u>2,151</u>
Commitments and Contingencies		
<b>EQUITY</b>		
Partners' Capital	<u>2,296</u>	<u>2,238</u>
Total Liabilities and Equity	<u>\$ 4,500</u>	<u>\$ 4,389</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	<u>Six Months Ended June 30,</u>	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 191	\$ 212
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	55	51
Basis of Real Estate Sold (Includes Impairment Losses of \$19 in 2004)	28	114
Deferred Income Taxes	(1)	12
Gain on Sales of Properties and Other Assets	(21)	(5)
Working Capital Changes	(24)	10
Other	--	(3)
Net Cash Provided By Operating Activities	<u>228</u>	<u>391</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property Additions (Excluding Timberland Acquisitions)	(28)	(32)
Timberlands Acquired (Including Tax-Deferred Exchange Proceeds)	(80)	(39)
Proceeds from Sales of Properties and Other Assets (Including Tax-Deferred Exchange Proceeds)	5	27
Net Cash Used In Investing Activities	<u>(103)</u>	<u>(44)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Distributions	(136)	(125)
Borrowings under Line of Credit	1,140	1,227
Repayment of Borrowings under Line of Credit	(1,093)	(1,355)
Proceeds from Issuance of Short-term Debt	50	--
Principal Payments and Retirement of Long-term Debt	(49)	(32)
Net Cash Used In Financing Activities	<u>(88)</u>	<u>(285)</u>
Increase In Cash and Cash Equivalents	37	62
Cash and Cash Equivalents:		
Beginning of Period	<u>347</u>	<u>267</u>
End of Period	<u>\$ 384</u>	<u>\$ 329</u>

*See accompanying Notes to Consolidated Financial Statements*

**PLUM CREEK TIMBERLANDS, L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1. Basis of Presentation**

Plum Creek Timberlands, L.P. is a Delaware Limited Partnership and a wholly owned subsidiary of Plum Creek Timber Company, Inc. Plum Creek Timber Company, Inc. (“Parent”) is a Delaware Corporation and 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” relate to Plum Creek Timber Company, Inc. and all of its wholly owned subsidiaries.

At June 30, 2005, the Operating Partnership owned and managed approximately 7.7 million acres of timberlands in the Northwest, Southern and Northeast United States, and owned and operated ten wood product conversion facilities in the Northwest United States.

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 Timber Company, Inc. Plum Creek Timber Company, Inc. has no independent assets, liabilities or operations other than its investment in Plum Creek Timberlands, L.P. and 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. Certain prior period amounts have been reclassified to conform to the first quarter of 2005 presentation. The reclassifications had no impact on operating income or net income.

Plum Creek Timberlands, L.P. is a wholly owned subsidiary of Plum Creek Timber Company, Inc. Accordingly, for federal income tax purposes, Plum Creek Timberlands, L.P. is considered a disregarded entity and is treated as a division of Plum Creek Timber Company, Inc. As a result, Plum Creek Timberlands, L.P. is not subject to income tax.

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, is not generally subject to corporate-level income tax. However, the Operating Partnership 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 sale of logs, and the development and/or sale of some of our higher and better use timberlands. 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 corporate statutory rate primarily due to Plum Creek’s status as a REIT. (See Note 3 of the Notes to Financial Statements.)

The financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by accounting principles generally accepted in the United States of America to be included in a full set of financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Plum Creek Timberlands, L.P. for the three years ended December 31, 2004, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on March 4, 2005, 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. 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.

**New Accounting Pronouncements.** In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (“SFAS No. 123(R)”), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is

**PLUM CREEK TIMBERLANDS, L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123(R) must be adopted for fiscal years beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued. We expect to adopt SFAS No. 123(R) on January 1, 2006.

The Operating Partnership adopted the fair-value-based method of accounting for share-based payments effective January 1, 2002, using the prospective method described in SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. Currently, the Operating Partnership uses the Black-Scholes-Merton formula to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of SFAS No. 123(R) on January 1, 2006. The Operating Partnership does not expect the expense for stock options computed in accordance with SFAS No. 123(R) to be materially different than the expense currently computed under SFAS No. 123.

SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Operating Partnership cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amounts of operating cash flows recognized in prior periods for such excess tax deductions were immaterial.

In addition to stock options, Plum Creek also grants restricted stock of Plum Creek Timber Company, Inc., and dividend equivalents and value management awards, a portion of which may be payable in common stock of Plum Creek Timber Company, Inc. Grants of both dividend equivalents and value management awards represent awards that are classified and accounted for as liabilities under SFAS No. 123(R). As a result, the expense recognized over the performance period for both dividend equivalents and value management awards will equal the fair value of an award as of the last day of the performance period times the number of awards that are earned. Furthermore, SFAS No. 123(R) requires the quarterly expense recognized during the performance period to be based on the fair value of dividend equivalents and value management awards as of the end of the most recent quarter. The Operating Partnership does not expect the total expense recognized over the performance period for dividend equivalents and value management awards computed in accordance with SFAS No. 123(R) to be materially different than the total expense currently computed under SFAS No. 123. However, as a result of the requirement under SFAS No. 123(R) to base the quarterly expense on the current fair value of dividend equivalent and value management awards, the quarterly expense recognized under SFAS No. 123(R) could be materially different than the quarterly expense we currently recognize under SFAS No. 123.

**Note 2. Timber and Timberlands, Property, Plant and Equipment, and Inventory**

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

	June 30, 2005	December 31, 2004
Timber and logging roads – net	\$ 2,373	\$ 2,367
Timberlands	1,250	1,223
Timber and Timberlands – net	<u>\$ 3,623</u>	<u>\$ 3,590</u>

**PLUM CREEK TIMBERLANDS, L.P.**  
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Property, plant and equipment consisted of the following (in millions):

	June 30, 2005	December 31, 2004
Land, buildings and improvements	\$ 80	\$ 80
Machinery and equipment	286	282
	<b>366</b>	362
Accumulated depreciation	(121)	(109)
Property, Plant and Equipment – net	<b>\$ 245</b>	<b>\$ 253</b>

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

	June 30, 2005	December 31, 2004
Raw materials (logs)	\$ 11	\$ 24
Work-in-process	4	4
Finished goods	36	32
	<b>51</b>	60
Supplies	11	11
Total	<b>\$ 62</b>	<b>\$ 71</b>

**Note 3. Income Taxes**

Plum Creek Timberlands, L.P. is a wholly owned subsidiary of Plum Creek Timber Company, Inc. Accordingly, for federal income tax purposes, Plum Creek Timberlands, L.P. is considered a disregarded entity and is treated as a division of Plum Creek Timber Company, Inc. As a result, Plum Creek Timberlands, L.P. is not subject to income tax.

Plum Creek Timber Company, Inc. has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code. A REIT is generally not subject to 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. As a consequence of the October 6, 2001, merger with The Timber Company, which involved merging a taxable entity into a nontaxable entity, Plum Creek will generally be subject to corporate-level income tax (built-in gains tax) if the Operating Partnership makes a taxable disposition of certain property acquired in the merger with The Timber Company within the ten-year period following the merger date. The built-in-gains tax is generally deferred on dispositions of property to the extent the proceeds from such dispositions are reinvested in qualifying like-kind replacement property. Furthermore, the Operating Partnership conducts certain non-REIT activities through various 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, and the development and/or sale of some of the Operating Partnership's higher and better use timberlands.

At June 30, 2005, the Operating Partnership had \$74 million of proceeds held in like-kind exchange funds. It is the Operating Partnership's policy to record the built-in gains tax associated with proceeds held by like-kind exchange funds unless management believes it is probable that the proceeds will be successfully reinvested within the 180-day reinvestment period. Management has concluded that it is not probable that \$44 million of the \$74 million will be reinvested within the 180-day reinvestment period; as a result, the Operating Partnership

**PLUM CREEK TIMBERLANDS, L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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has recorded a built-in gains tax expense of \$1 million for the quarter and \$4 million of the six months ended June 30, 2005. A portion of the accrued built-in gains tax may be reversed in a subsequent period if the proceeds are successfully reinvested within the required period. No built-in gains tax expense was recognized during the quarter or six months ended June 30, 2004.

It is the Operating Partnership's policy to present like-kind exchange funds as a current asset in our balance sheet under the description "Like-Kind Exchange Funds Held in Escrow" to the extent management concludes it is not probable that the funds will be successfully reinvested, and to present as "Timber and Timberlands – Net" in our balance sheet to the extent management concludes it is probable the funds will be successfully reinvested. The presentation in the cash flow statement is consistent with the balance sheet presentation for escrow funds from the sale of timberlands (i.e., escrow funds not expected to be successfully reinvested are presented as a negative adjustment to "Working Capital Changes" under cash provided by operating activities and funds expected to be successfully reinvested are presented as "Timberlands Acquired" under investing activities). However, escrow funds associated with the sale of other assets, such as our first quarter sale of coal reserves, are eliminated from cash provided by operations (by inclusion in "Gain on Sales of Properties") in the quarter in which the property is sold, and are reflected as investing activity in the quarter the proceeds are reinvested or received from the escrow fund.

**Note 4. Borrowings**

The Operating Partnership has a \$650 million facility revolving line of credit maturing on January 15, 2009. As of June 30, 2005, the interest rate for the line of credit was LIBOR plus 0.875%, which included facility fees. This rate can range from LIBOR plus 0.75% to LIBOR plus 1.625% depending on our financial results. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$650 million, including up to \$50 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. As of June 30, 2005, the Operating Partnership had \$495 million of borrowings and \$6 million of standby letters of credit outstanding; \$149 million remained available for borrowing under the Operating Partnership's line of credit. On July 1, 2005, \$376 million of the borrowings under the line of credit was repaid.

In April 2005, the Operating Partnership retired its \$20 million variable rate senior note bearing interest at 3-month LIBOR plus 1.445% due in 2008 prior to its maturity using funds available under the Operating Partnership's revolving line of credit. Furthermore, in June 2005, the Operating Partnership made principal payments totaling \$27 million on borrowings due under the Operating Partnership's 1989 senior and first mortgage notes bearing interest at 11.125%.

In May 2005, the Operating Partnership entered into a \$50 million one-year term loan agreement to finance the acquisition of approximately 35,000 acres of Florida timberlands. As of June 30, 2005, the interest rate for the term loan was LIBOR plus 0.5%. This rate can range from LIBOR plus 0.4% to LIBOR plus 1.075% depending on our financial results.

In August of 2004, Plum Creek filed with the Securities and Exchange Commission a shelf registration statement under which the Operating Partnership has registered and from time to time may offer and sell up to \$400 million of its debt securities. As of June 30, 2005, the entire amount for issuance of debt securities remained available under the shelf registration statement.

**Note 5. Employee Pension Plans**

Plum Creek Timber Company, Inc. sponsors defined benefit pension plans and a defined contribution pension plan. Substantially all employees of the Operating Partnership are covered by these plans. All of Plum Creek's activities are conducted through the Operating Partnership. Therefore, all employee pension and retirement plan assets, obligations and costs are allocated to the Operating Partnership.

**PLUM CREEK TIMBERLANDS, L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The components of net periodic benefit cost were as follows for the **quarterly and six-month periods ended June 30** (in millions):

	Quarter Ended June 30,	
	2005	2004
Service cost	\$ 1	\$ 2
Interest cost	2	2
Expected return on plan assets	(1)	(2)
Net periodic benefit cost	<u>\$ 2</u>	<u>\$ 2</u>

  

	Six Months Ended June 30,	
	2005	2004
Service cost	\$ 3	\$ 3
Interest cost	3	3
Expected return on plan assets	(2)	(3)
Net periodic benefit cost	<u>\$ 4</u>	<u>\$ 3</u>

**Note 6. Stock-Based Compensation**

Plum Creek Timber Company, Inc. has a Stock Incentive Plan. Certain executives and key employees of the Operating Partnership are covered by this plan. All of Plum Creek's activities are conducted through the Operating Partnership. Therefore, all stock-based compensation expense is allocated to the Operating Partnership. Proceeds from the exercise of Plum Creek Timber Company, Inc. stock options are retained by Plum Creek Timber Company, Inc.

The Operating Partnership expenses stock-based employee compensation (stock options, value management awards, dividend equivalents and restricted stock) in accordance with the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Under the prospective method adopted by the Operating Partnership in 2002, stock option employee compensation cost is recognized using the fair value method for all employee awards granted, modified, or settled on or after January 1, 2002. (See "New Accounting Pronouncements" in Note 1 of the Notes to Financial Statements.)

The Operating Partnership recognized stock-based compensation expense of approximately \$3 million each during the quarters ended June 30, 2005 and 2004. Stock-based compensation expense for each of the six-month periods ended June 30, 2005 and 2004, totaled approximately \$5 million. Had the Operating Partnership elected to use the fair value method of accounting for all stock-based compensation, net income for the quarters and six-month periods ended June 30, 2005 and 2004, would not differ from amounts reported.

During the first quarter of 2005, the Operating Partnership paid \$8 million in cash and issued approximately 32,000 shares of common stock of Plum Creek Timber Company, Inc. as payment for Value Management Awards and Dividend Equivalents under the terms of the Plum Creek's Stock Incentive Plan. Payments for Value Management Awards during the first quarter of 2004 consisted of \$2 million in cash and approximately 101,000 shares of common stock of Plum Creek Timber Company, Inc. No Dividend Equivalents were paid in 2004.

**PLUM CREEK TIMBERLANDS, L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 7. Commitments and Contingencies**

**Contingencies.** The Operating Partnership is subject to regulations regarding forest and harvest practices and is, from time to time, involved in various legal proceedings, including environmental matters, incidental to its business. Moreover, the Operating Partnership is currently in the early stages of several lawsuits related to property damage caused by various sources, including fire and flooding (“Property Damage Litigations”). The Operating Partnership believes it is more likely than not that the Property Damage Litigations will be resolved favorably. However, the final outcome of any legal proceeding is subject to many variables and cannot be predicted with any degree of certainty. The Operating Partnership believes that there are meritorious defenses for these claims and is vigorously defending these matters. However, if the Operating Partnership is not successful in defending the claims, we believe the aggregate losses for the Property Damage Litigations would range between \$0 and \$12 million.

In consideration of the inherent difficulty of predicting the outcome of such matters, we cannot state what the eventual outcome of pending legal claims against the Operating Partnership will be. Based on current knowledge, management does not believe that liabilities, if any, arising from any single pending proceeding will have a material adverse effect on the Operating Partnership’s financial position, results of operations or liquidity. However, the possibility of a material adverse impact on the Operating Partnership’s operating results for a particular quarterly period exists in the event that an unfavorable outcome in multiple proceedings were to occur within the same quarterly reporting period, depending, among other factors, on the level of the Operating Partnership’s income for such period.

**Environmental Contingencies.** In connection with the October 6, 2001, merger with The Timber Company, Plum Creek agreed to indemnify Georgia-Pacific for substantially all of the liabilities attributed to The Timber Company. In 2003, Georgia-Pacific provided the Operating Partnership with information about the existence of mine tailings and approximately 4.5 billion gallons of acidic surface water on approximately 90 acres in Hot Spring County, Arkansas, on former Georgia-Pacific properties. Barite mining and related activities were conducted on the site between 1939 and 1981 in part by lessees of an entity that was acquired by Georgia-Pacific. The environmental issues associated with this site are currently being investigated and no remediation plan has yet been approved. There is not sufficient information, therefore, to adequately assess the costs, if any, associated with this matter or Georgia-Pacific’s degree of responsibility. No amounts have been accrued for this potential liability, as the Operating Partnership’s liability in this matter cannot be reasonably determined at this time. Furthermore, to the extent the Operating Partnership is required to indemnify Georgia-Pacific for its share of the remediation costs, the Operating Partnership may be able to recover a portion of its cost from Georgia-Pacific’s insurance policy, or indemnity obligations of various lessees that conducted mining operations on the property, or both.

**PLUM CREEK TIMBERLANDS, L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 8. 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 <sup>(A)</sup>	Manu- factured Products	Other <sup>(B)</sup>	Total
<b>Quarter Ended June 30, 2005</b>						
External revenues	\$ 57	\$ 135	\$ 36	\$ 128	\$ 2	\$ 358
Intersegment revenues	14	--	--	--	--	14
Depreciation, depletion and amortization	6	13	--	7	--	26
Operating income	20	63	20	9	2	114
<b>Quarter Ended June 30, 2004</b>						
External revenues	\$ 47	\$ 104	\$ 50	\$ 134	\$ 6	\$ 341
Intersegment revenues	15	--	--	--	--	15
Depreciation, depletion and amortization	6	11	--	7	--	24
Operating income	16	45	12	23	4	100
	Northern Resources	Southern Resources	Real Estate <sup>(A)</sup>	Manu- factured Products	Other <sup>(B)</sup>	Total
<b>Six Months Ended June 30, 2005</b>						
External revenues	\$ 126	\$ 266	\$ 104	\$ 257	\$ 5	\$ 758
Intersegment revenues	33	--	--	--	--	33
Depreciation, depletion and amortization	12	26	--	15	--	53
Operating income	49	127	64	17	4	261
<b>Six Months Ended June 30, 2004</b>						
External revenues	\$ 115	\$ 220	\$ 238	\$ 256	\$ 9	\$ 838
Intersegment revenues	42	--	--	--	--	42
Depreciation, depletion and amortization	14	23	--	14	--	51
Operating income	48	101	114	34	6	303

(A) Management estimates that included in the Operating Partnership's 7.7 million acres of timberlands are approximately 1.3 million acres of higher and better use timberlands and approximately 1.0 million acres of non-strategic timberlands. The higher and better use timberlands are expected to be sold over the next 15 years for conservation, residential or recreational purposes. The non-strategic timberlands, which consist of large blocks as well as smaller tracts, are expected to be sold over the next five to ten years. In the meantime, these timberlands continue to be used productively in our business of growing and selling timber. Sales of large, non-strategic timberlands totaled \$15 million (approximately 51,000 acres) for the second quarter of 2004, and \$133 million (approximately 255,000 acres) for the six months ended June 30, 2004. There were no sales of large, non-strategic timberlands during the quarter or six months ended June 30, 2005.

**PLUM CREEK TIMBERLANDS, L.P.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

During the quarter and six months ended June 30, 2004, the Real Estate segment recorded impairment losses of \$3 million and \$19 million, respectively, as a part of cost of goods sold in connection with proposed sales of timberlands. There were no impairment losses incurred in the quarter or six months ended June 30, 2005; however, a previously recognized impairment loss of \$1 million was reversed during the first quarter of 2005 due to a revised estimate of fair value.

(B) During the first quarter of 2005, the Operating Partnership sold its remaining coal reserves for total proceeds of \$22 million. The net gain from this sale, after reducing the proceeds for \$1 million costs of sales and \$1 million applicable income taxes, was \$20 million, which has been reported in our income statement as a separate line item below Income from Continuing Operations. Prior to the sale, substantially all of the coal reserves were subject to long-term mineral leases; the annual revenue and operating income from such mineral leases were approximately \$3 million.

A reconciliation of total 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,	
	2005	2004
Total segment operating income	\$ 114	\$ 100
Interest expense, net	(27)	(27)
Corporate and other unallocated expenses	(12)	(11)
Gain on sale of other assets	--	5
Income before income taxes	<u>\$ 75</u>	<u>\$ 67</u>
	Six Months Ended June 30,	
	2005	2004
Total segment operating income	\$ 261	\$ 303
Interest expense, net	(54)	(56)
Corporate and other unallocated expenses	(25)	(23)
Gain on sale of other assets	--	5
Income before income taxes	<u>\$ 182</u>	<u>\$ 229</u>

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

References to “Plum Creek,” “the company,” “we,” “us” or “our” are references to Plum Creek Timber Company, Inc., a Delaware corporation and a real estate investment trust, or REIT, for federal income tax purposes, and all of its wholly owned subsidiaries.

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 in “Risk Factors” below. 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 the 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 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 4, 2005.

## Results of Operations

### Second Quarter 2005 Compared to Second Quarter 2004

The following table and narrative compare operating results by segment for the **quarters ended June 30** (in millions):

	Quarter Ended June 30,		Change
	2005	2004	
Operating Income by Segment			
Northern Resources	\$ 20	\$ 16	\$ 4
Southern Resources	63	45	18
Real Estate	20	12	8
Manufactured Products	9	23	(14)
Other	2	4	(2)
Total Segment Operating Income	114	100	14
Other Costs & Eliminations	(12)	(11)	(1)
Gain on Sale of Other Assets	--	5	(5)
Operating Income	\$ 102	\$ 94	\$ 8

**Northern Resources Segment.** Revenues increased by \$9 million, or 15%, to \$71 million in the second quarter of 2005. This increase was due primarily to higher harvest volume (\$5 million) and improved softwood sawlog prices (\$4 million). Harvest volume increased by 8% due primarily to favorable harvesting conditions during the second quarter of 2005 compared to wet weather during the second quarter of 2004, and an increased availability of loggers. For all of 2005, harvest levels in the Northern Resources Segment are expected to increase by approximately 3% over the 5.2 million tons we harvested during 2004. Softwood sawlog prices increased by 8% due primarily to a higher demand for logs as a result of increased lumber production, and a limited supply of logs.

Northern Resources Segment operating income was 28% of its revenues for the second quarter of 2005, and 26% for the second quarter of 2004. Segment costs and expenses increased by \$5 million, or 11%, to \$51 million. This increase was due primarily to higher log and haul costs per ton (\$3 million) and higher harvest volume (\$2 million). Log and haul costs on a per ton basis increased by 8% due primarily to higher fuel costs.

**Southern Resources Segment.** Revenues increased by \$31 million, or 30%, to \$135 million in the second quarter of 2005. This increase was due primarily to a higher harvest volume (\$16 million), a higher percentage of delivered log sales compared to sales of standing timber (\$11 million), and higher softwood sawlog prices (\$3 million).

Harvest volume increased due primarily to favorable harvesting conditions, a planned increase in harvest levels and the deferral of harvesting activity during the second quarter of 2004 because of weak log markets. Harvesting conditions throughout most of the second quarter of 2005 were favorable, compared to extremely wet weather conditions during 2004. For all of 2005, we expect the harvest volume to increase by 5% over the 13.3 million tons we harvested during 2004 as a result of the increased percentage of maturing timber on our southern timberlands.

Revenues increased by \$11 million due to the company's increased percentage of delivered log sales. The company increased its percentage of delivered log sales by decreasing its percentage of sales of standing timber. Under its delivered log sale agreements, the company is responsible for log and haul costs. When standing timber is sold, the buyer incurs the log and haul costs.

The company sells logs on a delivered basis when, in management's judgement, log merchandising efforts will yield a premium over selling stumpage. While revenues are higher when the company is responsible for the logging and hauling of timber, a large portion of that increase in revenue is to cover the related increase in cost of sales. As a result, on delivered log sales the company realizes lower operating income as a percentage of revenue, even though operating income is generally improved.

Southern Resources Segment operating income was 47% of its revenues for the second quarter of 2005, and 44% for the second quarter of 2004. Southern Resources Segment costs and expenses increased by \$13 million, or 22%, to \$72 million in 2005. This increase was due primarily to an increase in log and haul costs as a result of a higher percentage of delivered log sales compared to sales of standing timber and higher harvest volume.

**Real Estate Segment.** Revenues decreased by \$14 million to \$36 million in 2005. During the second quarter of 2004, approximately 51,000 acres of large, non-strategic timberlands were sold for \$15 million. Excluding revenues from these large, non-strategic timberland sales, revenues were comparable. However, during the second quarter of 2005, we sold approximately 19,000 acres with an average sales price of \$1,845 per acre, compared to approximately 34,000 acres with an average sales price of \$1,001 per acre for the same period in the prior year. During the second quarter of 2005, small non-strategic and conservation timberland sales accounted for approximately 80% of the acres sold and higher and better use timberland sales represented approximately 20% of the acres sold. Excluding large, non-strategic timberland sales, small non-strategic and conservation timberland sales accounted for approximately 95% of the acres sold during the second quarter of 2004, and higher and better use timberland sales represented less than 5% of the acres sold.

The timing of real estate sales is a function of many factors, including the availability of government and not-for-profit funding, the general state of the economy, the plans of adjacent landowners, the expectation of future price appreciation, and the timing of harvesting activities.

Real Estate Segment operating income was 56% of its second quarter revenues for 2005, compared to 24% for 2004. This increase was due primarily to selling a greater percentage of higher value timberlands during 2005 compared to 2004 and the sale of large, non-strategic timberlands during 2004. Real Estate Segment costs and expenses decreased by \$22 million to \$16 million. This decrease of \$22 million was due primarily to the sale of large, non-strategic timberlands, for which we recognized costs and expenses of \$13 million, an impairment loss of \$3 million recorded during the second quarter of 2004, and selling fewer acres during 2005.

**Manufactured Products Segment.** Revenues decreased by \$6 million, or 4%, to \$128 million in the second quarter of 2005. This decrease was due primarily to lower lumber prices (\$5 million) and lower plywood prices (\$4 million), offset in part by higher lumber volume (\$3 million). Despite record high housing starts (U.S. housing starts during the first six months of 2005 were 5% higher than the 25-year record high housing starts during the first six months of 2004), lumber prices decreased by 11% due primarily to increased lumber production. U.S. lumber production during the first four months of 2005 was 4% higher than lumber production during the first four months of 2004 due primarily to the start-up of new mills and capacity expansions. Furthermore, lumber imports (primarily Canada, Europe and Latin America) during the first four months of 2005 increased by 9% over the same period in the prior year due primarily to the strength of the U.S. economy and weak foreign markets. Plywood prices decreased by 13% due primarily to the increased production of structural panels (plywood and oriented strand board). U.S. structural panel production during the first six months of 2005 was 3% higher than production during the first six months of 2004 due primarily to the start-up of new mills and capacity expansions.

Manufactured Products Segment operating income was 7% of its revenues for the second quarter of 2005 and 17% for the second quarter of 2004. This decrease was due primarily to lower lumber and plywood prices, and higher log and raw material costs. Manufactured Products Segment costs and expenses increased by \$8 million, or 7%, to \$119 million in the second quarter of 2005. This increase was due primarily to higher log costs for our lumber and plywood mills, higher costs for purchased wood for our

remanufacturing facilities, and higher resin costs. Log costs have increased due primarily to a declining supply of logs in Montana and favorable lumber and plywood prices.

**Other Costs and Eliminations / Gain on Sale of Other Assets.** Other Costs and Eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$12 million during the second quarter of 2005, compared to a decrease of \$11 million during the second quarter of 2004.

During the second quarter of 2004, we sold our working interest in our coalbed methane gas joint operating agreement to Geomet, Inc. for \$27 million and recorded a gain of \$5 million.

**Provision for Income Taxes.** The provision for income taxes was \$6 million for the second quarter of 2005, compared to \$10 million for the second quarter of 2004. This change of \$4 million was due primarily to the \$14 million decline in the operating performance for the Manufactured Products Segment. Plum Creek has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code, and as such, is generally not subject to 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, and sales of some of our higher and better use lands.

#### **Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004**

The following table and narrative compare operating results by segment for the **six months ended June 30** (in millions):

	<u>Six Months Ended June 30,</u>		Change
	2005	2004	
Operating Income by Segment			
Northern Resources	\$ 49	\$ 48	\$ 1
Southern Resources	127	101	26
Real Estate	64	114	(50)
Manufactured Products	17	34	(17)
Other	4	6	(2)
Total Segment Operating Income	<u>261</u>	303	(42)
Other Costs & Eliminations	(25)	(23)	(2)
Gain on Sale of Other Assets	--	5	(5)
Operating Income	<u>\$ 236</u>	\$ 285	\$ (49)

**Northern Resources Segment.** Revenues increased by \$2 million, or 1%, to \$159 million in 2005. This increase was due primarily to higher sawlog prices (\$11 million), offset in part by lower harvest volume (\$9 million). Sawlog prices increased by 9% due primarily to a higher demand for logs as a result of increased lumber production, and a limited supply of logs. The decrease in harvest volume was due primarily to the timing of harvesting activity. During the first six months of 2005, we purchased a greater percentage of sawlogs for our Montana mills from external log suppliers, and therefore lowered the harvest levels from our timberlands, as compared to the same period in 2004. For all of 2005, harvest levels in the Northern Resources Segment are expected to increase by approximately 3% over the 5.2 million tons we harvested during 2004.

Northern Resources Segment operating income was 31% of its revenues for both 2005 and 2004. Segment costs and expenses increased by \$1 million, or 1%, to \$110 million. This increase was due primarily to

higher log and haul costs per ton (\$6 million) offset in part by lower harvest volume (\$5 million). Log and haul costs on a per ton basis increased by 8% due primarily to higher fuel costs.

***Southern Resources Segment.*** Revenues increased by \$46 million, or 21%, to \$266 million in 2005. This increase was due primarily to a higher harvest volume (\$21 million), a higher percentage of delivered log sales compared to sales of standing timber (\$16 million), and higher softwood sawlog prices (\$5 million).

Harvest volume increased due primarily to favorable harvesting conditions and a planned increase in harvest levels. Harvesting conditions throughout most of the first six months of 2005 were favorable, compared to extremely wet weather conditions during 2004. For all of 2005, we expect the harvest volume to increase by 5% over the 13.3 million tons we harvested during 2004 as a result of the increased percentage of maturing timber on our southern timberlands.

Revenues increased by \$16 million due to the company's increased percentage of delivered log sales. The company increased its percentage of delivered log sales by decreasing its percentage of sales of standing timber. Under its delivered log sale agreements, the company is responsible for log and haul costs. When standing timber is sold, the buyer incurs the log and haul costs.

The company sells logs on a delivered basis when, in management's judgement, log merchandising efforts will yield a premium over selling stumpage. While revenues are higher when the company is responsible for the logging and hauling of timber, a large portion of that increase in revenue is to cover the related increase in cost of sales. As a result, on delivered log sales the company realizes lower operating income as a percentage of revenue, even though operating income is generally improved.

Softwood sawlog prices increased temporarily during the first quarter of 2005 due primarily to a weather-related shortage of logs. Several of our customers had low log inventories at the end of 2004 due to wet weather during the second half of 2004 and, as a result, offered higher prices in order to rebuild log decks.

Southern Resources Segment operating income was 48% of its revenues for 2005, and 46% for 2004. Southern Resources Segment costs and expenses increased by \$20 million, or 17%, to \$139 million in 2005. This increase was due primarily to an increase in log and haul costs as a result of a higher percentage of delivered log sales compared to sales of standing timber, higher harvest volume and an increase in the per ton rate for log and haul cost. The per ton rate increase for log and haul costs, which increased costs and expenses by \$3 million, was due primarily to higher fuel costs.

***Real Estate Segment.*** Revenues decreased by \$134 million to \$104 million in 2005. During the six months ended June 30, 2004, approximately 255,000 acres of large, non-strategic timberlands were sold for \$133 million. Excluding revenues from these large, non-strategic timberland sales, revenues were comparable. However, during the first six months of 2005 we sold approximately 54,000 acres with an average sales price of \$1,732 per acre, compared to approximately 80,000 acres with an average sales price of \$1,306 per acre for the same period in the prior year. Furthermore, we recognized \$8 million from the sale of conservation easements during 2005 while there were no revenues from conservation easements during 2004. During the six months ended June 30, 2005, small non-strategic and conservation timberland sales accounted for approximately 80% of the acres sold and higher and better use timberland sales represented approximately 20% of the acres sold. Excluding large, non-strategic timberland sales, small non-strategic and conservation timberland sales accounted for approximately 87% of the acres sold during the six months ended June 30, 2004, and higher and better use timberland sales represented 13% of the acres sold.

The timing of real estate sales is a function of many factors, including the availability of government and not-for-profit funding, the general state of the economy, the plans of adjacent landowners, the company's expectation of future price appreciation, and the timing of harvesting activities. We expect higher and better use timberland and small, non-strategic timberland sales for the remainder of the year to range between \$130 million and \$150 million. Real Estate Segment sales could be higher depending on the extent of large, non-strategic timberlands sold during the remainder of the year.

Real Estate Segment operating income was 62% of its revenues for 2005, compared to 48% for 2004. This increase was due primarily to selling a greater percentage of higher value timberlands during 2005 compared to 2004, an impairment loss of \$19 million during 2004 and the sale of large, non-strategic timberlands during 2004. Real Estate Segment costs and expenses decreased by \$84 million to \$40 million. This decrease of \$84 million was due primarily to the sale of large, non-strategic timberlands for which we recognized costs and expenses of \$49 million, an impairment loss of \$19 million recorded during the first six months of 2004 and selling fewer acres of higher and better use timberland and small, non-strategic timberland during 2005.

***Manufactured Products Segment.*** Revenues increased by \$1 million to \$257 million in 2005. This increase was due primarily to higher MDF prices (\$7 million), offset in part by lower plywood prices (\$5 million). MDF prices increased by 14% due primarily to improved demand and a richer product mix. MDF demand has increased due to strong housing starts and improved repair and remodel markets. During the first half of 2004, we resolved all of our start-up issues associated with our new MDF thin-board line and, as a result, have increased the percentage of higher-margin products we produce. Plywood prices decreased by 7% due primarily to the increased production of structural panels (plywood and oriented strand board). U.S. structural panel production during the first six months of 2005 was 3% higher than production during the first six months of 2004 due primarily to the start-up of new mills and capacity expansions.

Manufactured Products Segment operating income was 7% of its revenues for 2005 and 13% for 2004. This decrease was due primarily to higher log and raw material costs. Manufactured Products Segment costs and expenses increased by \$18 million, or 8%, to \$240 million in 2005. This increase was due primarily to higher log costs for our lumber and plywood mills, higher costs for purchased wood for our remanufacturing facilities, and higher resin costs. Log costs have increased due primarily to a declining supply of logs in Montana and favorable lumber and plywood prices.

***Other Costs and Eliminations / Gain on Sale of Other Assets.*** Other Costs and Eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$25 million in 2005, compared to a decrease of \$23 million in 2004.

During the second quarter of 2004, we sold our working interest in our coalbed methane gas joint operating agreement to Geomet, Inc. for \$27 million and recorded a gain of \$5 million.

***Provision for Income Taxes.*** The provision for income taxes for the first six months of 2005 was \$11 million, compared to \$17 million for the first six months of 2004. Plum Creek has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code and, as such, is generally not subject to corporate-level income tax. However, during the first six months of 2005 we accrued \$4 million of corporate (built-in gains) income tax associated with the sale of timberlands. (See Note 4 of the Notes to Financial Statements of Plum Creek Timber Company, Inc.)

Furthermore, 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, and the development and/or sale of some of our higher and better use timberlands. During the first six months of 2005 we accrued \$7 million of income taxes associated with these non-REIT activities, compared to accruing \$17 million during the first six months of 2004. This decrease of \$10 million was due primarily to the \$17 million decline in the operating performance for the Manufactured Products Segment and the \$5 million gain we recognized during the second quarter of 2004 from the sale of our coalbed methane gas working interest.

***Gain on Sale of Properties, net of tax.*** During the first quarter of 2005, we sold our remaining coal reserves for total proceeds of \$22 million. The net gain from this sale, after reducing the proceeds for costs of sales and applicable income taxes, was \$20 million, which has been reported in our income statement as a separate line item below Income from Continuing Operations.

## Financial Condition and Liquidity

Net cash provided by operating activities during the six months ended June 30, 2005, totaled \$228 million, compared to \$391 million for the same period in 2004. The decrease of \$163 million was due primarily to a \$134 million decrease in revenues from timberland sales and an increase in working capital. Timberland sales during the six months ended June 30, 2004, included \$133 million in revenues from sales of large, non-strategic timberlands. Working capital increased by \$24 million during the six months ended June 30, 2005, compared to a decrease of \$10 million during the six months ended June 30, 2004. This difference of \$34 million is due primarily to an increase in the like-kind exchange funds held in escrow. (See Note 4 of the Notes to Financial Statements of Plum Creek Timber Company, Inc.)

In August of 2004, the company filed with the Securities and Exchange Commission a shelf registration statement under which the company from time to time may offer and sell any combination of preferred stock, common stock, depositary shares, warrants and guarantees up to a total amount of \$400 million, and under which Plum Creek Timberlands, L.P., the company's wholly owned operating partnership, may from time to time offer and sell debt securities of up to an additional total amount of \$400 million. As of June 30, 2005, the entire amounts for issuance of equity and debt securities remained available under the shelf registration statement.

The company has a \$650 million facility revolving line of credit maturing on January 15, 2009. As of June 30, 2005, the interest rate for the line of credit was LIBOR plus 0.875%, which included facility fees. This rate can range from LIBOR plus 0.75% to LIBOR plus 1.625% depending on our financial results. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$650 million, including up to \$50 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. As of June 30, 2005, we had \$495 million of borrowings and \$6 million of standby letters of credit outstanding; \$149 million remained available for borrowing under our line of credit. On July 1, 2005, \$376 million of the borrowings under our line of credit was repaid.

In April 2005, the company retired its \$20 million variable rate senior note bearing interest at 3-month LIBOR plus 1.445% due in 2008 prior to its maturity using funds available under the company's revolving line of credit. Furthermore, in June 2005, the company made principal payments totaling \$27 million on borrowings due under the company's 1989 senior and first mortgage notes bearing interest at 11.125%.

In May 2005, the company entered into a \$50 million one-year term loan agreement to finance the acquisition of approximately 35,000 acres of Florida timberlands. As of June 30, 2005, the interest rate for the term loan was LIBOR plus 0.5%. This rate can range from LIBOR plus 0.4% to LIBOR plus 1.075% depending on our financial results.

The company's borrowing agreements contain various restrictive covenants, including limitations on harvest levels, sales of assets, the incurrence of indebtedness and making restricted payments (such as payments of cash dividends or stock repurchases). The borrowing agreements limit our ability to make restricted payments based on available cash, which is generally our net income (excluding gains on the sale of capital assets) after adjusting for non-cash charges (such as depreciation and depletion), changes in various reserves, less capital expenditures and principal payments on indebtedness that are not financed. Additionally, the amount of available cash may be increased by the amount of proceeds from the sale of higher and better use properties and, under certain circumstances, by 50% of the amount of net proceeds from the sale of other assets. Furthermore, our line of credit requires that we maintain certain interest coverage and maximum leverage ratios. The company was in compliance with such covenants at June 30, 2005.

The company's financial policy is to maintain a balance sheet that provides the financial flexibility to pursue our strategic objectives. In order to maintain this financial flexibility, the company's objective is to maintain its investment grade credit rating. This is reflected in our moderate use of debt, good access to

credit markets and no material covenant restrictions in our debt agreements that would prevent us from prudently using debt capital.

Cash required to meet our financial needs will be significant. We believe, however, that cash on hand and cash flows from continuing operations will be sufficient to fund planned capital expenditures, and interest and principal payments on our indebtedness for the next year. In 2006 and 2007, the company has significant long-term debt principal payment requirements. Also, the company has \$50 million in short-term debt that matures in 2006. The company intends to refinance these principal payments at the time of maturity. The company, however, may not refinance the entire amount and may use cash generated from operations for a portion of the principal payments.

On August 2, 2005, our Board of Directors authorized the company to make a dividend payment of \$0.38 per share, or approximately \$70 million, which will be paid on August 31, 2005, to stockholders of record on August 17, 2005. Future dividends will be determined by our Board of Directors, in its sole discretion, based on consideration of a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, debt covenant restrictions that may impose limitations on the company's ability to make cash payments, borrowing capacity, changes in the prices of and demand for Plum Creek's products, and changes in our ability to sell timberlands at attractive prices. Other factors that our Board of Directors considers include 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.

The company has authorization from our Board of Directors to repurchase up to \$200 million of the company's common stock. As of June 30, 2005, the company had repurchased approximately 2 million shares of common stock for a total cost of \$43 million at an average price of \$21.53 per share.

Capital expenditures, excluding the acquisition of timberlands, for the six months ended June 30, 2005, were \$28 million, compared to \$32 million for the same period in 2004. Planned capital expenditures, excluding timberland acquisitions, for 2005 are expected to range between \$90 million and \$100 million, of which approximately 60% are considered discretionary and approximately 40% are considered maintenance expenditures. Discretionary expenditures consist primarily of silviculture investments (e.g., fertilizers and herbicides) associated with our timberlands and to a lesser extent land development investments. Maintenance expenditures consist primarily of reforestation costs for our timberlands and projects at our manufacturing facilities to sustain operating activities or improve safety. On March 28, 2005, Plum Creek signed a definitive agreement to purchase approximately 56,000 acres of timberlands in Florida subject to completion of due diligence. The transaction is valued at approximately \$90 million and is expected to close in several phases. The first phase of approximately \$50 million closed during the second quarter of 2005 with the remaining phases closing over the next 18 months.

## **Risk Factors Applicable to the Business of Plum Creek**

### **Business and Operating Risks**

#### *The Cyclical Nature of Our Business Could Adversely Affect Our Results of Operations*

Our results of operations are affected by the cyclical nature of the forest products industry. Historical prices for logs and manufactured wood products have been volatile, and we, like other participants in the forest products industry, have limited direct influence over the time and extent of price changes for logs and wood products. The demand for logs and wood products is affected primarily by the level of new residential construction activity and, to a lesser extent, repair and remodeling activity and other industrial uses. The demand for logs is also affected by the demand for wood chips in the pulp and paper markets. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- interest rates;

- population growth and changing demographics; and
- seasonal weather cycles (e.g., dry summers, wet winters).

Decreases in the level of residential construction activity generally reduce demand for logs and wood products. This results in lower revenues, profits and cash flows. In addition, industry-wide increases in the supply of logs and wood products during favorable price environments can also lead to downward pressure on prices. Timber owners generally increase production volumes for logs and wood products during favorable price environments. Such increased production, however, when coupled with even modest declines in demand for these products in general, could lead to oversupply and lower prices.

Our results of operations may also be subject to global economic changes as global supplies of wood fiber shift in response to changing economic conditions. Changes in global economic conditions that could affect our results of operations include, but are not limited to, new timber supply sources and changes in currency exchange rates, foreign and domestic interest rates and foreign and domestic trade policies.

In addition, changes in our ability to sell or exchange non-strategic timberlands and timberland properties that have higher and better uses at attractive prices could have a significant effect on our results of operations.

The following factors, among others, may adversely affect the timing and amount of our income generated by our land sales:

- general economic conditions;
- availability of funding for governmental agencies, developers, conservation organizations, individuals and others to purchase our timberlands for conservation, recreation, residential or other purposes;
- local real estate market conditions, such as oversupply of, or reduced demand for, properties sharing the same or similar characteristics as those in our portfolio;
- relative illiquidity of real estate investments;
- impact of federal, state and local land use and environmental protection laws; or
- changes in tax, real estate and zoning laws.

#### *The Forest Products Industry is Highly Competitive*

The forest products industry is highly competitive in terms of price and quality. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products. For example, plywood markets are subject to competition from oriented strand board, and U.S. lumber and log markets are subject to competition from other worldwide suppliers.

Historically, Canada has been a significant source of lumber for the U.S. market, particularly in the new home construction market. This source of lumber was constrained in April 1996 when a five-year lumber trade agreement between the U.S. and Canada went into effect. The trade agreement was intended to limit the volume of Canadian lumber exported into the U.S. through the assessment of an export tariff on annual lumber exports to the U.S. in excess of certain levels from the four major producing Canadian provinces.

The trade agreement expired in March 2001, and soon thereafter a U.S. industry coalition, of which Plum Creek is a member, submitted anti-dumping and countervailing duty petitions to the International Trade Commission and the U.S. Department of Commerce. In March 2002, the Department of Commerce rendered a final determination in favor of the U.S. industry coalition and set a 19.3% countervailing duty on Canadian lumber imports and an anti-dumping duty on all non-investigated Canadian exporters averaging 9.7% (representing the weighted average of the anti-dumping rates imposed on the investigated Canadian exporters). The Department of Commerce decreased these duties in April 2002 to 18.8% and 8.4%, respectively. In May 2002, the International Trade Commission rendered a final determination that the U.S. industry was threatened with material injury from Canadian lumber imports. Following this determination, the Department of Commerce put into effect the countervailing and anti-dumping duties in May 2002. However, due to strong demand for lumber in the U.S., the duties have not had the effect of decreasing Canadian lumber imports' share of the U.S. market. It is uncertain whether the final duties

would have the effect of decreasing Canada's share of the market in times of weaker domestic demand for lumber products.

The future of the U.S.-imposed import duties on Canadian lumber remains uncertain. Canada appealed both the anti-dumping duty and the countervailing duty to the WTO and NAFTA appeal boards. Both the WTO and NAFTA issued initial rulings that affirmed the U.S. position that Canadian stumpage practices are, in fact, providing a subsidy to the Canadian industry, and upheld the validity of antidumping duties imposed on most Canadian producers. Both the WTO and NAFTA rulings also included provisions for re-examining the calculation and level of the countervailing and the anti-dumping duties. In its most recent administrative review ruling in December 2004, the Department of Commerce recalculated the countervailing duty rate to 16.4% and the anti-dumping duty rate to 3.8%, for a combined duty of 20.2%.

On April 30, 2004, NAFTA ruled that the International Trade Commission's determination of injury to U.S. industry from Canadian lumber imports, which is the basis for imposing the duties, was not supported with substantial evidence. The commission unsuccessfully appealed this decision, and was directed to issue a "no injury" opinion, which was rendered in September 2004. The U.S. Trade Representative responded by calling for the formation of an Extraordinary Challenge Committee under the NAFTA dispute resolution process to evaluate the NAFTA panel's injury decision. A panel was formed to hear the challenge and arguments before the panel took place in June of 2005; no decision is expected from the panel before the end of August of 2005.

To avoid protracted litigation, the U.S. and representatives of the Canadian government continue to pursue a settlement agreement. However, there can be no assurance that an agreement will be reached, or that the terms of any such final agreement would be favorable to the U.S. lumber industry's interests. Therefore, other factors remaining unchanged, the downward pressure on domestic lumber and log prices caused by Canadian imports could continue or increase, particularly during periods of weak lumber demand.

*Our Cash Dividends are Not Guaranteed and May Fluctuate*

We have elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code of 1986, as amended. Generally, REITs are required to distribute 90% of their taxable income. However, REITs are required to distribute only their ordinary taxable income and not their net capital gains income. Accordingly, we do not believe that we are required to distribute material amounts of cash given that substantially all our taxable income is treated as capital gains income. Our Board of Directors, in its sole discretion, determines the amount of the quarterly dividends to be provided to our stockholders based on consideration of a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments, future acquisitions and divestitures, harvest levels, changes in the price and demand for our products and general market demand for timberlands including those timberland properties that have higher and better uses. Consequently, our dividend levels may fluctuate.

*We May Be Unsuccessful in Carrying Out Our Acquisition Strategy*

We intend to pursue acquisitions of strategic timberland properties. As with any investment, our future acquisitions, if any, may not perform in accordance with our expectations. In addition, we anticipate financing such acquisitions through cash from operations, borrowings under our unsecured credit facilities, proceeds from equity or debt offerings (including offerings of limited partnership units by our operating partnership) or proceeds from asset dispositions, or any combination thereof. Our inability to finance future acquisitions on favorable terms or the failure of any acquisitions to conform to our expectations, could adversely affect our results of operations.

*We Depend on External Sources of Capital for Future Growth*

Our ability to finance growth is dependent to a significant degree on external sources of capital. Our ability to access such capital on favorable terms could be hampered by a number of factors, many of which are outside of our control, including, without limitation, a decline in general market conditions, increases in interest rates, an unfavorable market perception of our growth potential, a decrease in our current or

estimated future earnings or a decrease in the market price of our common stock. In addition, our ability to access additional capital may also be limited by the terms of our existing indebtedness, which, among other things, restricts our incurrence of debt and the payment of dividends. Any of these factors, individually or in combination, could prevent us from being able to obtain the capital we require on terms that are acceptable to us, and the failure to obtain necessary capital could materially adversely affect our future growth.

*Our Ability to Harvest Timber May Be Subject to Limitations Which Could Adversely Affect Our Operations*

Weather conditions, timber growth cycles, access limitations, availability of contract loggers, and regulatory requirements associated with the protection of wildlife and water resources may restrict harvesting of timberlands as may other factors, including damage by fire, insect infestation, disease, prolonged drought and other natural disasters. Although damage from such natural causes usually is localized and affects only a limited percentage of the timber, there can be no assurance that any damage affecting our timberlands will in fact be so limited. As is common in the forest products industry, we do not maintain insurance coverage with respect to damage to our timberlands.

Our revenues, net income and cash flow from our operations are dependent to a significant extent on the pricing of our products and our continued ability to harvest timber at adequate levels. In addition, the terms of our long-term debt agreements and line of credit limit our ability to fund dividends to stockholders by accelerating the harvest of significant amounts of timber.

*Our Timberlands and Manufacturing Facilities Are Subject to Federal and State Environmental Regulations*

We are subject to regulation under, among other laws, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act of 1980, the National Environmental Policy Act, and the Endangered Species Act, as well as comparable state laws and regulations. Violations of various statutory and regulatory programs that apply to our operations could result in civil penalties, remediation expenses, potential injunctions, cease and desist orders and criminal penalties.

We engage in the following activities that are subject to regulation:

- forestry activities, including harvesting, planting and road building, use and maintenance;
- the generation of air emissions;
- the discharge of industrial wastewater and storm water; and
- the generation and disposal of both hazardous and non-hazardous wastes.

Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Some environmental statutes impose strict liability, rendering a person liable for environmental damage without regard to the person's negligence or fault. These laws or future legislation or administrative or judicial action with respect to protection of the environment may adversely affect our business.

The Endangered Species Act and comparable state laws protect species threatened with possible extinction. A number of species on our timberlands have been and in the future may be protected under these laws. Protection of threatened and endangered species may include restrictions on timber harvesting, road building and other forest practices on private, federal and state land containing the affected species.

## Stock Ownership

### *Provisions in Our Certificate of Incorporation and Delaware Law May Prevent a Change in Control*

Some provisions of our certificate of incorporation may discourage a third party from seeking to gain control of us. For example, the ownership limitations described in our certificate of incorporation could have the effect of delaying, deferring, or limiting a change of control in which holders of our common stock might receive a premium for their shares over the then prevailing market price. The following is a summary of provisions of our certificate of incorporation that may have this effect.

**Ownership Limit.** In order for us to maintain our qualification as a REIT, not more than 50% of the value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals, as defined in the Internal Revenue Code. For the purpose of preserving our REIT qualification, our certificate of incorporation prohibits ownership, either directly or under the applicable attribution rules of the Internal Revenue Code, of more than 5% of the lesser of the total number of shares of our common stock outstanding or the value of the outstanding shares of our common stock by any stockholder other than by some designated persons agreed to by us or as set forth in our certificate of incorporation (the “Ownership Limit”). The Ownership Limit may have the effect of discouraging an acquisition of control of us without the approval of our Board of Directors.

The Ownership Limit in our certificate of incorporation also restricts the transfer of our common stock. For example, any transfer of our equity is null and void if the transfer would:

- result in any person owning, directly or indirectly, equity in excess of the Ownership Limit;
- result in our equity being owned, directly or indirectly, by fewer than 100 persons;
- result in us being “closely held” (as defined in the Internal Revenue Code);
- result in us failing to qualify as a “domestically controlled REIT” (as defined in the Internal Revenue Code); or
- otherwise cause us to fail to qualify as a REIT.

**Preferred Stock.** Our certificate of incorporation authorizes our Board of Directors to issue up to 75 million shares of preferred stock. Upon issuance, our Board of Directors will establish the preferences and rights for this preferred stock. These preferences and rights may include the right to elect additional directors. The issuance of preferred stock could have the effect of delaying or preventing a change in control of us even if a change in control were in our stockholders’ best interests.

**Section 203 of the Delaware General Corporation Law.** Section 203 of the Delaware General Corporation Law generally prohibits us from engaging in business transactions with a person or entity that owns 15% or more of our voting stock for a period of three years following the time such person or entity became an “interested stockholder” unless, prior to such time, our Board of Directors approved either the business combination or the transaction which resulted in such person or entity becoming an interested stockholder. A business transaction may include mergers, asset sales and other transactions resulting in financial benefit to the person or entity that owns 15% or more of our voting stock.

## Tax Risks

### *If We Fail to Qualify as a REIT, We Would Be Subject to Tax at Corporate Rates and Would Not Be Able to Deduct Dividends to Stockholders When Computing Our Taxable Income*

If in any taxable year we fail to qualify as a REIT:

- we would be subject to federal and state income tax on our taxable income at regular corporate rates;
- we would not be allowed to deduct dividends to stockholders in computing our taxable income; and
- unless we were entitled to relief under the Internal Revenue Code, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification.

If we fail to qualify as a REIT, we might need to borrow funds or liquidate some investments in order to pay the additional tax liability. Accordingly, funds available for investment or dividends to our stockholders would be reduced for each of the years involved.

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code to our operations and the determination of various factual matters and circumstances not entirely within our control. There are only limited judicial or administrative interpretations of these provisions. Although we operate in a manner consistent with the REIT qualification rules, we cannot assure you that we are or will remain so qualified.

In addition, federal and state tax laws are constantly under review by persons involved in the legislative process, the Internal Revenue Service, the United States Department of the Treasury, and state taxing authorities. Changes to the tax law could adversely affect our stockholders. We cannot predict with certainty whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders may be changed.

*If We Failed to Distribute the Earnings and Profits of The Timber Company, We Would Be Subject to Adverse Tax Consequences*

In connection with The Timber Company's October 6, 2001, merger with Plum Creek, we were required by January 31, 2002, to distribute the earnings and profits acquired from the six entities that comprised The Timber Company. We believe that the accelerated payment of our fourth quarter dividend for 2001, which we paid on December 28, 2001, was sufficient to distribute these earnings and profits. If we failed to distribute an amount equal to these earnings and profits, we might be subject to adverse tax consequences. We expect that, even if the earnings and profits were subsequently adjusted upward by the Internal Revenue Service, the amount we distributed exceeded such earnings and profits. Nevertheless, such an adjustment may give rise to the imposition of the 4% excise tax on the excess income required to be distributed over the amounts treated as distributed after application of the earnings and profits rule.

*Certain of Our Business Activities are Potentially Subject to Prohibited Transactions Tax or Corporate-Level Income Tax.*

REITs are generally intended to be passive entities and can thus only engage in those activities permitted by the Internal Revenue Code, which for Plum Creek generally include: owning and managing a timberland portfolio; growing timber; and the sale of standing timber. Accordingly, the manufacture and sale by us of wood products, the harvesting and sale of logs, and the development and/or sale of certain timberlands are conducted through one or more of our taxable REIT subsidiaries ("TRSs") because such activities could generate non-qualifying REIT income and could constitute "prohibited transactions." Prohibited transactions are defined by the Internal Revenue Code to be sales or other dispositions of property to customers in the ordinary course of a trade or business. By conducting our business in this manner we believe that we satisfy the REIT requirements of the Internal Revenue Code and are not subject to the 100% tax that could be imposed if a REIT were to conduct a prohibited transaction. We may not always be successful, however, in limiting such activities to our TRSs. Therefore, we could be subject to the 100% prohibited transactions tax if such instances were to occur. The net income of our TRSs is subject to corporate-level income tax.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Approximately \$1.4 billion 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. The following table presents contractual principal cash flows based upon maturity dates of the company's debt obligations and the related weighted-average contractual interest rates by expected maturity dates for the fixed rate debt (in millions):

	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value <sup>(B)</sup>
<b>June 30, 2005</b>								
Fixed Rate Debt								
Principal due <sup>(A)</sup>	\$ --	\$ 157	\$ 123	\$ 147	\$ 200	\$ 753	\$ 1,380	\$ 1,506
Avg. interest rate	7.5%	7.5%	7.4%	7.5%	7.3%	7.1%		
Variable Rate Debt <sup>(C)</sup>		\$ 50			\$ 495		\$ 545	\$ 545
	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value <sup>(B)</sup>

#### June 30, 2004

##### Fixed Rate Debt

Principal due <sup>(A)</sup>	\$ --	\$ 27	\$ 157	\$ 123	\$ 147	\$ 953	\$ 1,407	\$ 1,528
Avg. interest rate	7.6%	7.5%	7.5%	7.4%	7.5%	7.2%		

##### Variable Rate Debt

	\$ 20	\$ 466	\$ 486	\$ 486
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- (A) Excludes unamortized premium of \$8 million at June 30, 2005, and \$13 million at June 30, 2004.
- (B) The decrease in the fair value of our fixed rate debt compared to June 30, 2004, was due primarily to the repayment of \$27 million of borrowings during the second quarter of 2005.
- (C) As of June 30, 2005, the average interest rate on the \$495 million borrowings under our \$650 million revolving line of credit maturing on January 15, 2009 was based on LIBOR plus 0.875%, which included facility fees. This rate can range from LIBOR plus 0.75% to LIBOR plus 1.625% depending on our financial results. On July 1, 2005, \$376 million of the borrowings under our line of credit was repaid. In April 2005, Plum Creek retired its \$20 million variable rate senior note bearing interest at 3-month LIBOR plus 1.445% due in 2008 prior to its maturity using funds available under the company's revolving line of credit. In May 2005, the company entered into a \$50 million one-year term loan agreement to finance the acquisition of approximately 35,000 acres of Florida timberlands. As of June 30, 2005, the interest rate for the term loan was LIBOR plus 0.5%. This rate can range from LIBOR plus 0.4% to LIBOR plus 1.075% depending on our financial results.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Disclosure Controls and Procedures

The company's management, with the participation of the company's Chief Executive Officer and Chief 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 and Chief 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

### ITEM 1. LEGAL PROCEEDINGS

None. (See also Note 9 of the Notes to the Consolidated Financial Statements of Plum Creek Timber Company, Inc.)

Items 2 and 3 of Part II are not applicable and have been omitted.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE BY SECURITY HOLDERS

The company's 2005 Annual Meeting of Stockholders was held on May 11, 2005. Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. At the meeting, the following items were submitted to a vote of the stockholders:

- (a) Nine individuals nominated by the board for re-election for one-year terms expiring at the 2006 Annual Meeting of Stockholders were re-elected by a plurality vote, with no solicitations in opposition as follows:

Nominee	Votes Cast	
	For	Withheld
Rick. R. Holley	165,395,600	1,928,949
Ian B. Davidson	164,617,539	2,707,010
Robin Josephs	164,579,275	2,745,274
John G. McDonald	164,254,399	3,070,150
Robert B. McLeod	165,164,517	2,160,032
Hamid R. Moghadam	165,332,956	1,991,593
John H. Scully	165,334,488	1,990,061
Stephen C. Tobias	165,188,223	2,136,326
Carl B. Webb	165,231,613	2,092,936

There were no broker non-votes.

- (b) The appointment of Ernst & Young LLP as the company's independent auditors for 2005 by the audit committee of the Board of Directors was ratified by the stockholders, with 163,557,566 votes in favor of the proposal, 2,425,754 votes against the proposal, 1,341,229 abstentions and no broker non-votes.
- (c) A shareholder proposal to increase the voting threshold by which individuals are elected to the Board of Directors was included in the company's proxy materials in accordance with Rule 14a-8 of the Securities Exchange Act of 1934, as amended. The proposal was not approved by the stockholders,

with 46,845,791 votes in favor of the proposal, 68,650,009 votes against the proposal, 3,311,042 abstentions and 48,517,706 broker non-votes.

- (d) A shareholder proposal to require the compensation committee of the Board of Directors to adopt a policy providing that a significant amount of future stock option grants be premium-priced stock options, indexed stock options or stock options with performance based vesting terms, was included in the company's proxy materials in accordance with Rule 14a-8 of the Securities Exchange Act of 1934, as amended. The proposal was not approved by the stockholders, with 20,346,478 votes in favor of the proposal, 95,200,398 votes against the proposal, 3,265,488 abstentions and 48,512,184 broker non-votes.
- (e) A shareholder proposal to require the company to annually submit to stockholders a report relating to the company's political contribution activities was included in the company's proxy materials in accordance with Rule 14a-8 of the Securities Exchange Act of 1934, as amended. The proposal was not approved by the stockholders, with 9,673,648 votes in favor of the proposal, 7,543,869 votes against the proposal, 11,104,841 abstentions and 139,002,190 broker non-votes.

Item 5 of Part II is not applicable and has been omitted.

## **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.

### **INDEX TO EXHIBITS**

Exhibit Designation	Nature of Exhibit
2.4	Agreement and Plan of Merger by and among Georgia-Pacific Corporation, North American Timber Corp., NPI Timber, Inc., GNN Timber, Inc., GPW Timber, Inc., LRF Timber, Inc., NPC Timber, Inc. and Plum Creek Timber Company, Inc. (Form 8-K/A, File No. 1-10239, dated July 18, 2000). Amendment No. 1 to the Agreement and Plan of Merger, dated as of June 12, 2001 (Form 8-K, File No. 1-10239, dated June 12, 2001).
2.5	Real Estate Purchase and Sale Agreements between Plum Creek Timberlands, L.P., a wholly owned subsidiary of Plum Creek Timber Company, Inc., and Soterra LLC, a subsidiary of Greif, Inc., each dated March 28, 2005 (Form 8-K, File No. 1-10239, dated March 28, 2005).
3.1	Restated Certificate of Incorporation of Plum Creek Timber Company, Inc. (Form 10-Q, File No. 1-10239, for the quarter ended March 31, 2002).
3.2	Amendment and Restated By-laws of Plum Creek Timber Company, Inc. (Form 10-Q, File No. 1-10239, for the quarter ended March 31, 2002).
4.3	The registrant agrees that it will furnish to the Commission a copy of any of its debt instruments not listed herein upon request.
10.1	Plum Creek Timber Company, Inc. Deferral Plan (Form 8-K, File No. 1-10239, dated June 20, 2005).
10.2	Plum Creek Timber Company, Inc. Director Stock Ownership Plan (Form 8-K, File No. 1-10239, dated June 20, 2005).
10.3	Form of Director Deferral Election Forms (Form 8-K, File No. 1-10239, dated June 20, 2005).

- 10.4 Form of Executive Deferral Election Forms (Form 8-K, File No. 1-10239, dated June 20, 2005).
- 31.1 Certification of Rick R. Holley, President and Chief Executive Officer, pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of William R. Brown, Executive Vice President and Chief Financial Officer, 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, President and 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 William R. Brown, Executive 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.

## 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/ WILLIAM R. BROWN

WILLIAM R. BROWN

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

Date: August 2, 2005

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

I, **Rick R. Holley, President and Chief Executive Officer**, 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) and internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended) for the registrant and we 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - (d) disclosed in this quarterly report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 controls 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 controls over financial reporting.

Date: August 2, 2005

By: /s/ RICK R. HOLLEY

RICK R. HOLLEY

President and Chief Executive Officer

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

I, **William R. Brown, Executive Vice President and Chief Financial Officer**, 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) and internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended) for the registrant and we 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - (d) disclosed in this quarterly report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 controls 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 controls over financial reporting.

Date: August 2, 2005

By: /s/ WILLIAM R. BROWN

WILLIAM R. BROWN

Executive 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 of Plum Creek Timber Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2005, 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 13a or Section 15d 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 2, 2005

By: /s/ RICK R. HOLLEY

RICK R. HOLLEY

President and 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 of Plum Creek Timber Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William R. Brown, 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 13a or Section 15d 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 2, 2005

By: /s/ WILLIAM R. BROWN

WILLIAM R. BROWN

Executive 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.