

2008 **PLUM CREEK**  
ANNUAL REPORT

# KEYS TO SUCCESS

## **UNMATCHED ASSET BASE**

Timber assets are an excellent store of value—and Plum Creek manages one of the most geographically diverse collections of timberlands available for investment in the world. Our broad portfolio reduces risk while supplying multiple sources of potential value, from the timber we grow to the land and other resources we own.

## **STRONG BALANCE SHEET**

Plum Creek has \$369 million in cash and \$506 million available under its line of credit, producing nearly \$900 million in liquidity. We have no need to access debt markets for the next two years and hold an investment-grade credit rating. It all means Plum Creek is in superb financial shape to handle challenging economic conditions.

## **CONSISTENT STRATEGY**

We remain focused on managing a portfolio of productive land and timber and seeking to maximize its value, while avoiding areas in which we lack experience. Our shareholders have benefited from this disciplined approach: total Plum Creek shareholder returns surpass those of the S&P 500 on one-, three-, five-, ten-, and fifteen-year measures.

## **EXCELLENT FINANCIAL AND OPERATIONAL FLEXIBILITY**

Our strong balance sheet and excellent access to capital give us the financial strength to continue following our proven strategies for creating long-term shareholder value. And our diverse timber and land portfolio provides the flexibility to protect and grow the value of our asset base, deferring harvests in weak markets and allowing the trees to grow.

## **SUSTAINABLE DIVIDEND**

Plum Creek's dividend provides reliable income for our shareholders with growth potential as we grow the sustainable cash generation capability of the company. We expect to generate operating cash flow well in excess of our estimated \$280 million dividend—despite cyclically challenging conditions.

## **MULTIPLE VALUE CREATION OPPORTUNITIES**

Plum Creek is pursuing multiple value creation opportunities, from growing our non-timber natural resource business to serving new markets that are addressing the effects of climate change. In the coming years, we expect to serve new customers who seek the benefits of environmentally friendly, wood-based renewable energy; value the carbon stored in our growing forests; and plan to generate clean, wind-based electricity on our lands.

# DEAR FELLOW SHAREHOLDERS



**Rick R. Holley**

President and Chief  
Executive Officer

This past year, we all witnessed a number of historic events—not only on the political front but economically as well. No doubt, the current financial and economic crisis facing our country may be the toughest we undergo in our lifetimes. However, amid all the gloom, I believe there is reason for optimism. Our government has stepped in to shore up failing financial institutions and has made moves to stimulate our economy. These moves should improve credit markets and kick-start the economy as individuals and businesses are able to access funds needed to purchase homes or automobiles or to expand businesses.

How long will it take for our economy to improve? I wish I knew. But, I do know it will improve and the long-term demographics of our country will require a significant number of homes to be built over the next decade—this is positive for our economy and for Plum Creek.

There are several reasons to be optimistic about Plum Creek. In the very tough environment we faced in 2008, the company performed well. Our revenue for the year exceeded \$1.6 billion and our net income was \$233 million. Importantly, our cash flow from operations was \$420 million. We ended the year in excellent financial shape—no doubt the envy of many other companies. We had a cash balance of \$369 million, and \$506 million available under our line of credit;

combined, they represent nearly \$900 million of ready liquidity. We also repurchased \$264 million, or 3.7 percent, of our outstanding stock and retired \$333 million of debt.

In addition to our positive financial performance, Plum Creek stayed true to its mission of building a strong company that grows in value over time, while delivering a healthy, stable dividend to shareholders.

Plum Creek is well positioned to weather the tumultuous times that lie ahead. And, there are several additional reasons for that. We have more than 7 million acres of **hard assets** that are geographically diverse, give us operational flexibility, and appreciate in value every day, in good markets and in bad.

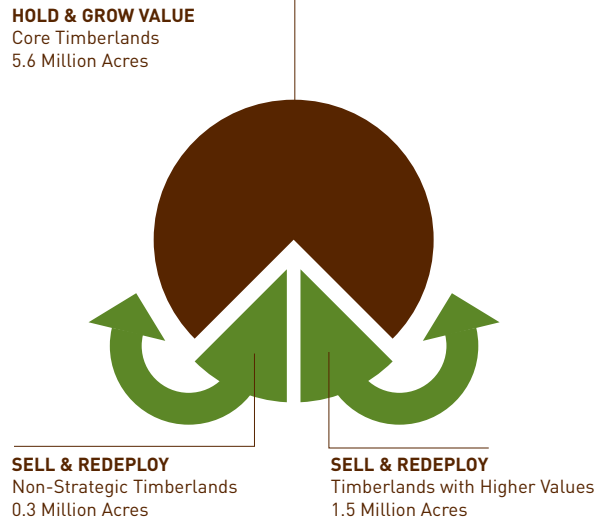
Our employees, the cornerstone of our success, focus every day on what they can do to identify, create, grow, and deliver value. When our team focuses on maximizing the value of every acre, we consider the trees growing on the land and the values they generate; the land itself and values they hold for timber production, conservation or recreation; and the value of oil, gas, sand, gravel, and other natural resources that our lands hold.

Our nearly 6 million acres of core timberlands provide unmatched geographic diversity and have several common attributes—they are highly productive, have an attractive customer base, and provide product and species diversity. As we manage these assets, we focus on maximizing value, rather than generating revenue. We will not grow a tree for 30 years and sell it into a poor market that undervalues it.

We have identified more than 1 million acres we believe have recreation or development value. We will not

## DISCIPLINED ASSET MANAGEMENT (7.4 Million Acres)

We manage our portfolio of timberlands with a goal of growing the total value of our shareholders' investment. We seek to redeploy the capital generated from the sale of both non-strategic and higher-value timberlands to best benefit our shareholders, whether through acquisition of new core timberlands, opportunistic repurchase of the company's shares, or investments aimed at improving the productivity of our core timberlands.



sell this land at a price below what we believe it is worth. Although the current market for these properties has slowed, they are still valued at several times the value of core timberland and will be monetized over time as markets improve, allowing us to capture their full value.

Additionally, we have built a strong balance sheet that provides for long-term, sustainable growth opportunities. And finally, and perhaps most importantly, we provide a secure, reliable dividend.

If you look back and review my letter for 2003, and for each year since then, you will note that our strategies remain unchanged. These key strategies focus on value growth and are as follows:

- Evaluate timberland portfolio for highest-value outcome,
- Grow the value of our core timber business,
- Create and capture value from timberlands with high-value alternative uses,
- Disciplined, effective capital allocation.

During 2008, creating value meant deferring harvests and land sales in markets that undervalued these assets. We reduced our sawlog harvest by more than 1 million tons due to poor markets; we will let those trees grow and capture their value at another time. We saw excellent prices for pulpwood and increased the harvest of this product, capturing that value today. In our Real Estate segment, the Georgia and Florida markets remained weak; therefore, we pulled listings off the market. We will bring those properties back to the market when conditions improve.

Creating value also meant selling large tracts of land to others at attractive values. In June we announced a large conservation sale of 310,000 acres of our lands in Montana for \$489 million. Phase I of this project closed in December 2008 for \$150 million; Phase II closed in February 2009 for \$250 million; and the final phase is expected to close in December 2010.

In October, we completed a joint venture transaction that valued 454,000 acres of Southern timberlands at \$783 million, or \$1,725 per acre.

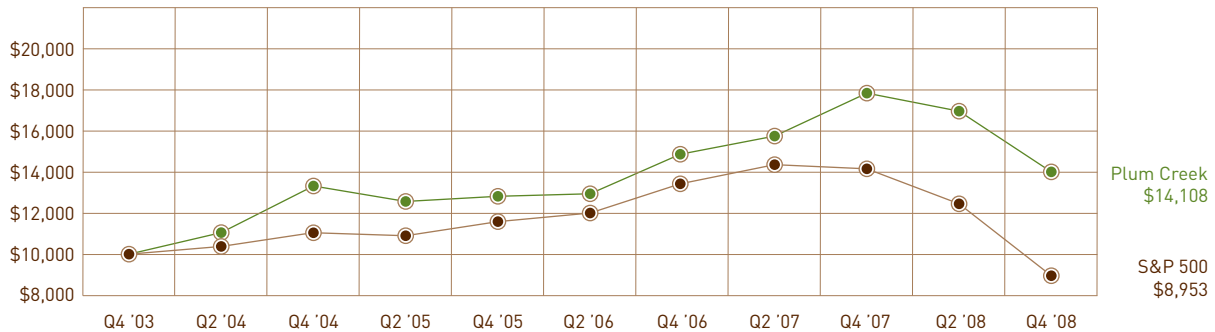
Each of these transactions was cash flow and earnings accretive and allowed us to capture excellent values for these timber assets. The net proceeds of \$933 million received during 2008 were used to further improve our already strong balance sheet.

During the year, we made tough decisions in our manufacturing business. We announced the permanent closure of one sawmill and the curtailment of others. This was the right decision from an economic and value standpoint and should position this business to manage through this difficult environment. However, it was a difficult one, due to its impact on a number of our valued employees and their families.

The Obama administration is focused on the development and use of alternative energy, especially renewable/green energy. What's more renewable and green than wood? We are very excited about creating value through the potential use of wood for energy. During 2008, we devoted resources to this opportunity because we believe it could be one of several future catalysts for positive long-term price

**VALUE OF A \$10,000 INVESTMENT IN  
PLUM CREEK VS. S&P 500 OVER 5 YEARS**  
(Includes Reinvestment of Dividends)

Over the past five years, an investment in Plum Creek has handily beat the S&P 500, with compound annual returns of 7.0% versus the S&P's negative 2.2% return.



appreciation for timber.

You've heard it before, but it bears repeating—capital allocation is Job #1 at Plum Creek! We believe that being thoughtful stewards of shareholder capital is critical to the company's success, especially during the challenging economic times we face today. As I mentioned earlier, during 2008, we generated significant cash flow. We used that cash flow to pay dividends of \$286 million, repurchase \$264 million of the company stock, and purchase approximately 150,000 acres of quality timberland for \$119 million, further improving our asset base.

While we were disappointed with our negative total shareholder return during 2008 of 21.4 percent, our investors fared better than those invested in other major timberland owners, the REIT indexes, or the S&P 500, which had a negative return of 37 percent for the year. We are proud of our long-term returns to our investors. As the chart shows, \$10,000 invested in Plum Creek five years ago has grown in value by more than 40 percent, while a \$10,000 investment in the S&P over the same period of time lost more than 10 percent of its value.

As we look ahead to 2009, I don't expect markets to improve any time soon. However, as I said earlier, our country has taken a number of steps that indicate to me that better times are on the way. Fortunately, Plum Creek is well positioned to manage through the tough times and reap the benefits of the good times when they return.

We have an excellent asset base that continues to grow—biologically and in value—every day; consistent strategies; an experienced and thoughtful management team; and a track record of doing the right thing for

long-term shareholder value.

We also have a strong balance sheet that provides us with considerable financial and operational flexibility; a reliable dividend that we will continue to grow when markets improve; and new opportunities for value creation on the horizon—renewable energy, real estate, and natural resources.

Finally, we have an incredible group of hardworking, loyal, and dedicated employees; our success is a tribute to them.

On behalf of our employees and shareholders, I thank Ian Davidson, our chairman of the board, for his 20 years of service to the company. Ian has served on our board since 1989 and as our chairman since 2005. He will retire following our May 2009 Annual Stockholders Meeting. His loyalty and dedication to Plum Creek, our shareholders, and our employees were unparalleled—we will miss him.

Lastly, I thank you, our shareholders, for your continued support.

Rick Holley  
President and Chief Executive Officer

2004-2008

## SELECTED FIVE-YEAR FINANCIAL HIGHLIGHTS

\$ IN MILLIONS EXCEPT PER-SHARE AMOUNTS	2008	2007	2006	2005	2004
Revenues	<b>\$ 1,614</b>	\$ 1,675	\$ 1,627	\$ 1,576	\$ 1,528
Operating Income <sup>A</sup>	<b>328</b>	424	461	448	477
Equity Earnings from Timberland Venture	<b>15</b>	-	-	-	-
Total Interest Expense, net	<b>148</b>	147	133	109	111
Income before Income Taxes <sup>B</sup>	<b>206</b>	277	328	339	366
Provision (Benefit) for Income Taxes	<b>(27)</b>	(3)	13	8	27
Income from Continuing Operations	<b>233</b>	280	315	331	339
Gain on Sale of Properties, net of tax	<b>-</b>	2	-	23	23
Cumulative Effect of Accounting Change, net of tax <sup>C</sup>	<b>-</b>	-	2	-	-
Net Income	<b>233</b>	282	317	354	362
<b>NON-CASH ITEMS</b>					
Depreciation, Depletion and Amortization <sup>D</sup>	<b>135</b>	134	128	113	114
Basis of Real Estate Sold <sup>E</sup>	<b>149</b>	108	85	124	134
<b>BALANCE SHEET ITEMS</b>					
Total Assets	<b>4,780</b>	4,664	4,661	4,812	4,378
Total Debt Obligations (to Unrelated Parties) <sup>F</sup>	<b>2,189</b>	2,532	2,333	2,241	1,897
Note Payable to Timberland Venture (a related party)	<b>783</b>	-	-	-	-
<b>EARNINGS PER SHARE (DILUTED)</b>					
Income from Continuing Operations	<b>\$ 1.37</b>	\$ 1.60	\$ 1.74	\$ 1.79	\$ 1.84
Net Income	<b>\$ 1.37</b>	\$ 1.61	\$ 1.75	\$ 1.92	\$ 1.97
Dividends Declared per Share	<b>\$ 1.68</b>	\$ 1.68	\$ 1.60	\$ 1.52	\$ 1.42
<b>TIMBERLAND ACQUISITIONS</b>					
Purchase Price	<b>\$ 119</b>	\$ 174	\$ 111	\$ 501	\$ 66
Acres	<b>147,000</b>	69,000	98,000	754,000	78,000
Timberland Dispositions (acres) <sup>G</sup>	<b>314,000</b>	252,000	112,000	232,000	377,000
Harvest Volume (in million tons)	<b>19.6</b>	20.4	21.0	19.2	18.6

A. Includes \$14 million gain in 2006 from the settlement of the Canadian Lumber dispute.

B. Includes \$11 million gain in 2008 on extinguishment of debt.

C. Includes impact of adopting Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, effective January 1, 2006.

D. Includes a \$10 million lumber manufacturing assets impairment loss in 2008, a \$4 million loss related to forest fires in 2007, a \$2 million loss in 2005 from hurricane damage, and a \$9 million lumber manufacturing assets impairment loss in 2004.

E. Includes impairment losses on sales of timberlands expected to close within a twelve-month period of \$1 million in both 2008 and 2007, \$2 million in 2006, \$1 million during 2005, and \$21 million during 2004.

F. Includes Timber Obligations accounted for as capital leases.

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

## EXECUTIVE COMMITTEE



Rick R.  
Holley

Thomas M.  
Lindquist

David W.  
Lambert

James A.  
Kraft

Larry D.  
Neilson

Barbara L.  
Crowe

Joan K.  
Fitzmaurice

Thomas M.  
Reed

Henry K.  
Ricklefs

## CORPORATE LEADERSHIP

### CORPORATE OFFICERS

**Rick R. Holley**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

**Thomas M. Lindquist**  
EXECUTIVE VICE PRESIDENT AND  
CHIEF OPERATING OFFICER

**David W. Lambert**  
SENIOR VICE PRESIDENT AND  
CHIEF FINANCIAL OFFICER

**James A. Kilberg**  
SENIOR VICE PRESIDENT, REAL ESTATE

**James A. Kraft**  
SENIOR VICE PRESIDENT, GENERAL COUNSEL  
AND SECRETARY

**Larry D. Neilson**  
SENIOR VICE PRESIDENT, BUSINESS DEVELOPMENT

**David A. Brown**  
VICE PRESIDENT,  
CHIEF ACCOUNTING OFFICER

**Elwood B. Coley Jr.**  
VICE PRESIDENT,  
BIOENERGY

**Barbara L. Crowe**  
VICE PRESIDENT, HUMAN RESOURCES

**Joan K. Fitzmaurice**  
VICE PRESIDENT, CORPORATE COMMUNICATIONS,  
AUDIT AND INFORMATION TECHNOLOGY

**Russell S. Hagen**  
VICE PRESIDENT, REAL ESTATE

**Robert J. Olszewski**  
VICE PRESIDENT, ENVIRONMENTAL AFFAIRS

**Thomas G. Ray**  
VICE PRESIDENT, MONTANA OPERATIONS

**Thomas M. Reed**  
VICE PRESIDENT, SOUTHERN RESOURCES

**Henry K. Ricklefs**  
VICE PRESIDENT, NORTHERN RESOURCES  
AND MANUFACTURING

**Laura B. Smith**  
VICE PRESIDENT AND TREASURER

### BOARD OF DIRECTORS

**Ian B. Davidson (A, N, F)**  
CHAIRMAN OF THE BOARD  
CHAIRMAN OF THE BOARD,  
DAVIDSON COMPANIES

**Rick R. Holley**  
PRESIDENT AND CHIEF EXECUTIVE OFFICER,  
PLUM CREEK

**Robin Josephs (A, C, F)**  
FORMER MANAGING DIRECTOR,  
STARWOOD CAPITAL GROUP

**John G. McDonald (A, N)**  
PROFESSOR OF FINANCE,  
STANFORD INVESTORS CHAIR, GRADUATE SCHOOL  
OF BUSINESS, STANFORD UNIVERSITY

**Robert B. McLeod (c)**  
CHAIRMAN AND CHIEF EXECUTIVE OFFICER,  
NEWLAND COMMUNITIES

**John F. Morgan Sr. (A)**  
OWNER, MORGAN TIMBER, LLC

**John H. Scully (N)**  
MANAGING DIRECTOR, SPO PARTNERS & CO.

**Stephen C. Tobias (c, N)**  
VICE CHAIRMAN AND CHIEF OPERATING  
OFFICER, NORFOLK SOUTHERN CORPORATION

**Martin A. White (c)**  
FORMER CHAIRMAN OF THE BOARD,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER,  
MDU RESOURCES, INC.

### COMMITTEES OF THE BOARD OF DIRECTORS

A Audit

C Compensation

N Corporate  
Governance and  
Nominating

F Audit Committee  
Financial Expert

## CORPORATE INFORMATION

### PRINCIPAL HEADQUARTERS

**Plum Creek**  
999 THIRD AVENUE, SUITE 4300  
SEATTLE, WA 98104-4096  
**PHONE:** 206.467.3600  
**URL:** WWW.PLUMCREEK.COM

### INVESTOR RELATIONS

**John B. Hobbs**  
DIRECTOR OF INVESTOR RELATIONS  
800.858.5347 OR 206.467.3600

### ANNUAL MEETING

**DATE:** MAY 6, 2009  
**TIME:** 9 AM  
**LOCATION:**  
WASHINGTON ATHLETIC CLUB  
LOBBY LEVEL, NOBLE ROOM  
1325 SIXTH AVENUE  
SEATTLE, WA 98101

### FORM 10-K

ADDITIONAL COPIES OF THIS REPORT AND PLUM  
CREEK'S REPORT ON FORM 10-K ARE AVAILABLE  
WITHOUT CHARGE UPON WRITTEN REQUEST TO:

**Plum Creek**

**INVESTOR RELATIONS**  
999 THIRD AVENUE, SUITE 4300  
SEATTLE, WA 98104-4096

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Ernst & Young LLP**  
999 THIRD AVENUE, SUITE 3500  
SEATTLE, WA 98104-4086

### STOCK INFORMATION

**LISTED:** NEW YORK STOCK EXCHANGE  
**SYMBOL:** PCL  
**CUSIP:** 729 251 108

### STOCK TRANSFER AGENT AND REGISTRAR

**Computershare Trust Company, N.A.**  
P.O. BOX 43078  
PROVIDENCE, RI 02940-3078

**PHONE INQUIRIES:** 800.254.4961  
**OUTSIDE THE U.S.:** 781.575.3400  
**TDD, HEARING-IMPAIRED:** 800.952.9245  
**URL:** WWW-US.COMPUTERSHARE.COM/INVESTOR

PLUM CREEK IS PROUD TO HAVE THE MANAGEMENT  
OF ALL OF ITS TIMBERLANDS INDEPENDENTLY  
CERTIFIED TO THE STANDARDS OF THE SUSTAINABLE  
FORESTRY INITIATIVE PROGRAM.



**Certified Fiber  
Sourcing**  
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