

AUDIT COMMITTEE CHARTER

BOARD OF DIRECTORS POTLATCH CORPORATION

Committee Purpose

The Audit Committee is a standing Committee established by the Board of Directors of Potlatch Corporation whose purposes are to:

- a. Assist Board oversight of the following:
 - (i) the integrity of Potlatch Corporation's financial statements;
 - (ii) Potlatch Corporation's compliance with legal and regulatory requirements;
 - (iii) the independent auditor's qualifications and independence; and
 - (iv) the performance of Potlatch Corporation's internal audit function and independent auditors; and
- b. Prepare the Audit Committee Report to be included in the Potlatch Corporation annual proxy statement as required by the rules of the Securities and Exchange Commission (SEC).

The role of the Audit Committee is to provide oversight on matters relating to accounting, financial reporting, internal controls, auditing, legal and regulatory compliance activities and other matters as the Board of Directors deems appropriate. The Committee's role is limited to this oversight. It is not the duty of the Audit Committee to plan or conduct audits or to determine that Potlatch Corporation's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations or to determine that internal controls are adequate and appropriate. These are the responsibilities of Management and the independent auditor. In adopting this Charter, the Board of Directors acknowledges that the Audit Committee members are not providing any expert or special assurance as to Potlatch Corporation's financial statements or any professional certification as to the independent auditor's work or auditing standards. Each member of the Audit Committee is entitled to rely on the integrity of those persons and organizations within and outside Potlatch Corporation that provide information to the Audit Committee and the accuracy and completeness of the financial and other information provided to the Audit Committee by such persons and organizations absent actual knowledge to the contrary.

Committee Membership and Procedures

The Audit Committee shall consist of a minimum of three Directors, as determined from time to time by the Board of Directors, one of whom shall be appointed as Chair of the Committee. The members and the Chair of the Committee will be appointed by the Board and shall serve at the pleasure of the Board. A majority of the members of the Committee shall constitute a quorum. The Chair (or in his or her absence, a member designated by the Chair) shall preside at all meetings of the Audit Committee. The Chair shall be responsible for leadership of the Audit Committee, including scheduling meetings, preparing agendas and making reports to the Board of Directors.

The entire Audit Committee or any individual Audit Committee member may be removed from office without cause by the affirmative vote of a majority of the Board of Directors. Any Audit Committee member may resign effective upon giving oral or written notice to the Chairman of the Board of Directors, the Corporate Secretary or the Board of Directors (unless the notice specifies a later time for the effectiveness of such resignation).

Independence and Other Qualifications

Each Director who serves on the Audit Committee shall meet the objective test of “independence” which has been established by the Board of Directors or, in the absence of such test, the Board of Directors shall make an individual determination that such Director is independent within the meaning of any applicable law or any listing standard or rule established by the New York Stock Exchange (NYSE) and applicable to the Committee. Each member of the Audit Committee shall also meet any additional independence or experience requirements as may be established from time to time by the NYSE or the SEC and applicable to the Audit Committee.

The Board of Directors shall endeavor to appoint at least one member to the Audit Committee who is a “financial expert” as such term may be defined from time to time by the SEC.

Committee Meetings

The Committee shall meet at the call of the Chair upon notice given in accordance with the By-laws of Potlatch Corporation. Meetings may also be called, subject to required notice, at any time by any member of the Committee or by the Chairman of the Board or the Vice Chair of the Board. The Audit Committee may include in its meetings or in separate executive sessions members of Management, the internal auditors, the independent auditors or other persons employed or retained by Potlatch Corporation or the Audit Committee.

Delegation to Subcommittee

The Audit Committee shall have the authority to delegate to a subcommittee consisting of one or more designated members of the Audit Committee the authority to conduct such of the Audit Committee's duties and responsibilities as are provided in the resolutions of the Audit Committee, except to the extent such delegation is limited by applicable law or listing standard. The actions of any subcommittee to whom authority is delegated under this paragraph shall be reported to the full Audit Committee.

Resources and Authority

The Audit Committee shall have the resources and appropriate authority to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of outside legal, accounting or other advisors to assist the Audit Committee or a member of the Audit Committee engaged in conducting the Audit Committee's duties and responsibilities, as it deems appropriate, without seeking Board approval.

Duties and Responsibilities

The following shall be the common recurring duties and responsibilities of the Audit Committee in carrying out its oversight role. These duties and responsibilities are set forth below as a guide to the Audit Committee with the understanding that the Audit Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, regulation or listing standard.

With respect to the independent auditor:

1. The Audit Committee shall have the sole authority to appoint, retain, compensate, evaluate and, where appropriate, replace Potlatch Corporation's independent auditor;
2. The Audit Committee, or a subcommittee to which the Audit Committee shall have delegated its authority for this purpose, shall have the sole authority to approve any or all auditing services and non-audit services to be provided to Potlatch Corporation and its subsidiaries by the independent auditors in advance of the provision of these services and shall also approve the fees and terms of all non-audit services provided by the independent auditor;
3. Obtain and review, at least annually, a report by the independent auditor describing the following:

- a. the auditors' internal quality control procedures;
 - b. any material issues raised by the most recent internal quality control review, or peer review, of the independent auditor's firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditor's firm, and any steps taken to deal with such issues; and
 - c. all relationships between the independent auditor and Potlatch Corporation, in order to assess the independent auditor's independence.
4. Review any report by the independent auditor describing:
- a. all critical accounting policies and practices to be used;
 - b. all alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 - c. any other material written communications between the independent auditor and Management, such as any management letter or schedule of unadjusted differences;
5. Following each audit, evaluate the independent auditor's qualifications, performance and independence, including the review and evaluation of the lead partner of the independent auditor, taking into account the opinions of Management and Potlatch Corporation's internal auditor and the report referred to in paragraph 4 above and present its conclusions to the Board of Directors;

With respect to Potlatch Corporation's financial statements:

6. Review and discuss with the independent auditor the matters related to the conduct of the audit required to be discussed by Statement on Auditing Standards Nos. 61 and 90 (Communications with Audit Committees), including the independent auditor's judgment about the quality, not just acceptability, of Potlatch Corporation's accounting principles as applied in its financial reporting;
7. Review with the independent auditor, the internal auditor and Management the adequacy and effectiveness of Potlatch Corporation's internal control structure and procedures and consider any recommendations for improvement of such controls;

8. Discuss the annual audited financial statements and quarterly financial statements with Management and the independent auditor, including Potlatch Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
9. Discuss press releases related to Potlatch Corporation's earnings (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies;
10. Review with the independent auditor any difficulties the independent auditor has encountered in the course of its audit, including any restrictions on the scope of the independent auditor's activities or on access to requested information, any significant disagreements with Management and Management's response.
11. Review major issues regarding accounting principles and financial statement presentations, including any significant changes in Potlatch Corporation's selection or application of accounting principles, and major issues as to the adequacy of Potlatch Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;
12. Review analyses prepared by Management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
13. Review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of Potlatch Corporation;
14. Review with the independent auditor and Management the impact on the financial statements of Potlatch Corporation of significant events, transactions or changes in accounting principles or estimates that potentially affect the quality of financial reporting, prior to filing of periodic reports with the SEC or as soon as practicable if the communications cannot be made prior to filing.
15. Recommend to the Board of Directors, based on the Audit Committee's review and discussions with Management, the internal auditor and independent auditor, whether Potlatch Corporation's financial statements should be included in its Annual Report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of the Form 10-K).

With respect to the internal audit function:

16. Oversee the appointment or replacement and compensation of an internal audit function, with the internal auditor reporting to the Audit Committee. The internal audit function may be staffed by employees or by an outside firm engaged by the Audit Committee;
17. Review with the senior internal auditor the scope and plan of the work to be done by the internal auditor and the results of such work;

With respect to other matters:

18. Oversee the adoption and disclosure of the Potlatch Corporation Corporate Conduct and Ethics Policy for Directors and Employees, including:
 - a. reviewing on an annual basis with Management the Policy and the implementation and effectiveness of compliance programs thereunder; and
 - b. reviewing any proposed waiver of the Policy for executive Officers or Directors and making a recommendation to the Board of Directors with respect to the disposition of any proposed waiver;
19. Establish procedures for: (i) the receipt, retention and treatment of complaints from employees of Potlatch Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
20. Discuss Potlatch Corporation's policies with respect to risk assessment and risk management, including discussing the guidelines and policies to govern the process by which Management assesses and manages Potlatch Corporation's exposure to risk;
21. Set clear hiring policies for employees or former employees of the independent auditor;
22. Review with the Board of Directors any issues that arise with respect to the quality or integrity of Potlatch Corporation's financial statements, Potlatch Corporation's compliance with legal or regulatory requirements, the performance and independence of Potlatch Corporation's independent auditors, or the performance of the internal audit function;

23. Review disclosures made to the Audit Committee by the Chief Executive Officer and Chief Financial Officer during their process for certification of periodic reports filed with the SEC about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in Potlatch Corporation's internal controls.
24. Prepare the report required by SEC rules to be included in Potlatch Corporation's annual stockholders' meeting proxy statement.
25. Recommend to the Board of Directors any revisions to this Charter deemed appropriate by the Audit Committee.

Performance Evaluation

The Audit Committee shall produce and provide to the Board of Directors an annual self-evaluation of the Committee, which evaluation shall assess the Committee's performance of its duties and responsibilities set forth in this Charter. The self-evaluation shall be conducted in such manner as the Audit Committee deems appropriate.