

Potlatch

POTLATCH CORPORATION -- THREE MONTHS REPORT, MARCH 31, 2004 HIGHLIGHTS

Unaudited (Dollars in thousands - except per-share amounts)

	Three Months Ended March 31	
	2004	2003
Net sales	\$ 420,422	\$ 334,802
Earnings (loss) from continuing operations	21,818	(8,891)
Net earnings (loss)	21,818	(9,565)
Net earnings (loss) per common share from continuing operations:		
Basic	\$.75	\$(.31)
Diluted	.74	(.31)
Net earnings (loss) per common share:		
Basic	.75	(.33)
Diluted	.74	(.33)
Dividends per common share (annual rate)	.60	.60

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

This report contains, in addition to historical information, certain forward-looking statements. These forward-looking statements are based on management's best estimates and assumptions regarding future events, and are therefore subject to known and unknown risks and uncertainties and are not guarantees of future performance. The company's actual results could differ materially from those expressed or implied by forward-looking statements. The company disclaims any intent or obligation to update these forward-looking statements.

TO OUR STOCKHOLDERS:

Potlatch Corporation reported improved earnings in the first quarter of 2004 versus the previous year's first quarter, largely due to continued strong markets for the company's wood products, especially oriented strand board.

The company reported net income of \$21.8 million, or \$.74 per diluted common share, for the first quarter of 2004, compared to a loss from continuing operations of \$8.9 million, or \$.31 per diluted common share, for the first quarter of 2003. Including discontinued operations, the company incurred a net loss of \$9.6 million, or \$.33 per diluted common share, for 2003's first quarter. Discontinued operations in 2003 consisted of the company's former printing papers mill in Brainerd, Minnesota. Net sales for the first quarter of 2004 were \$420.4 million, approximately 26% higher than the \$334.8 million recorded in the first quarter of 2003.

The Resource segment reported operating income of \$12.1 million for the first quarter of 2004, slightly higher than the \$11.1 million earned in the first quarter of 2003. Higher income from land sales was largely responsible for the favorable comparison.

Operating income for the Wood Products segment totaled \$57.8 million for the first quarter of 2004, a significant improvement over 2003's first quarter loss of \$3.6 million. The improvement is credited to higher selling prices and increased shipments for all of the segment's lumber and panel products. Low interest rates are supporting continued strong homebuilding activity and demand for wood products, while a weaker U.S. dollar has increased the cost of imported materials. The market's strength is most apparent in oriented strand board sales prices, which were nearly double first quarter 2003 prices and reflect a

continuation of the positive conditions that existed during the fourth quarter of 2003.

The Pulp and Paperboard segment reported an operating loss for 2004's first quarter of \$7.8 million, versus a loss of \$9.3 million for 2003's first quarter. Increased paperboard shipments, as well as lower unit costs due to higher paperboard production at the Lewiston, Idaho, facility, were responsible for the smaller loss in the quarter. Segment profitability is being constrained by weak selling prices for paperboard. However, markets have recently begun to show some signs of improvement. The segment's first quarter results were adversely affected by lower pulp production resulting from weather-related fiber supply problems in January and a planned maintenance shutdown in March at the Lewiston, Idaho, facility.

The Consumer Products segment incurred an operating loss of \$3.8 million for the first quarter of 2004, compared to operating income of \$6.8 million for 2003's first quarter. Markets for consumer tissue products continue to be very competitive, resulting in net sales prices that were 3 percent below first quarter 2003 levels. Higher pulp costs in the first quarter of 2004, coupled with start-up costs for the new tissue machine in Las Vegas, Nevada, contributed to the unfavorable quarter-to-quarter comparison as well. The results for the first quarter also reflect a pre-tax charge of approximately \$1.3 million for a reduction in force, which occurred in January. The segment's Las Vegas facility is currently producing ultra towel inventory to support the product's rollout by retailers in the second quarter.



L. Pendleton Siegel
Chairman and Chief Executive Officer

April 19, 2004

Statements of Operations and Comprehensive Income

Unaudited (Dollars in thousands - except per-share amounts)

	Three Months Ended March 31	
	2004	2003
Net sales	\$ 420,422	\$ 334,802
Costs and expenses:		
Depreciation, amortization and cost of fee timber harvested	27,083	26,859
Materials, labor and other operating expenses	322,105	292,344
Selling, general and administrative expenses	22,455	17,252
Restructuring charges	1,280	227
	372,923	336,682
Earnings (loss) from operations	47,499	(1,880)
Interest expense	(11,860)	(12,762)
Interest income	128	67
Earnings (loss) before taxes	35,767	(14,575)
Provision (benefit) for taxes	13,949	(5,684)
Earnings (loss) from continuing operations	21,818	(8,891)
Discontinued operations:		
Loss from discontinued operations (including loss on disposal of \$- and \$45)	-	(1,106)
Income tax benefit	-	(432)
Net earnings (loss)	21,818	(9,565)
Other comprehensive loss, net of tax:		
Cash flow hedges:		
Net derivative losses, net of income tax benefit of \$44 and \$-	(68)	-
Comprehensive income (loss)	\$ 21,750	\$ (9,565)
Net earnings (loss) per common share from continuing operations:		
Basic	\$.75	\$(.31)
Diluted	.74	(.31)
Net earnings (loss) per common share:		
Basic	.75	(.33)
Diluted	.74	(.33)
Average shares outstanding (in thousands):		
Basic	29,245	28,617
Diluted	29,365	28,617

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

Condensed Balance Sheets

2004 amounts unaudited (Dollars in thousands - except per-share amounts)

	March 31, 2004	December 31, 2003
Assets		
Current assets:		
Cash and short-term investments	\$ 87,485	\$ 47,281
Receivables, net	125,155	105,345
Inventories	166,002	159,678
Prepaid expenses	17,004	18,315
Total current assets	395,646	330,619
Land other than timberlands	8,831	8,831
Plant and equipment, at cost less accumulated depreciation	730,655	740,342
Timber, timberlands and related logging facilities	398,086	398,899
Other assets	117,709	118,686
	\$1,650,927	\$1,597,377
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments on long-term debt	\$ 507	\$ 507
Accounts payable and accrued liabilities	167,684	169,310
Total current liabilities	168,191	169,817
Long-term debt	618,288	618,278
Other long-term obligations	270,511	266,514
Deferred taxes	85,672	71,917
Stockholders' equity	508,265	470,851
	\$1,650,927	\$1,597,377
Stockholders' equity per common share	\$17.25	\$16.33
Working capital	\$ 227,455	\$ 160,802
Current ratio	2.4:1	1.9:1

Condensed Statements of Cash Flows

Unaudited (Dollars in thousands)

	Three Months Ended March 31	
	2004	2003
CASH FLOWS FROM OPERATIONS		
Net earnings (loss)	\$ 21,818	\$ (9,565)
Adjustments to reconcile net earnings (loss) to net operating cash flows:		
Loss from discontinued operations	-	647
Loss on disposal of discontinued operations	-	60
Depreciation, amortization and cost of fee timber harvested	27,083	26,859
Deferred taxes	13,755	(6,116)
Working capital changes	(17,343)	(11,059)
Other, net	217	-
Net cash provided by operating activities of continuing operations	45,530	826
CASH FLOWS FROM INVESTING		
Increase in restricted cash	-	(45)
Decrease (increase) in short-term investments	(39,792)	400
Additions to plant and properties	(12,783)	(13,531)
Other, net	(2,980)	(3,356)
Net cash used for investing activities of continuing operations	(55,555)	(16,532)
CASH FLOWS FROM FINANCING		
Change in book overdrafts	(9,106)	3,944
Increase in notes payable	-	20,000
Issuance of treasury stock	19,798	1,440
Dividends	(4,352)	(4,291)
Other, net	4,097	(5,976)
Net cash provided by financing activities of continuing operations	10,437	15,117
Cash from continuing operations	412	(589)
Cash from discontinued operations	-	3,781
Increase in cash	412	3,192
Balance at beginning of period	7,190	8,973
Balance at end of period	\$ 7,602	\$ 12,165

Segment Information

(Dollars in thousands)

	Quarter Ended March 31	
	2004	2003
Net Sales		
Resource	\$ 61,790	\$ 44,971
Wood products		
Oriented strand board	103,893	52,233
Lumber	77,659	63,651
Plywood	15,518	9,309
Particleboard	4,845	3,295
Other	7,139	8,587
Total wood products net sales	209,054	137,075
Pulp and paperboard		
Paperboard	108,529	104,921
Pulp	12,381	13,140
Total pulp and paperboard net sales	120,910	118,061
Consumer products	73,968	78,064
	465,722	378,171
Intersegment sales	(45,300)	(43,369)
Total net sales	\$ 420,422	\$ 334,802
Operating income (loss)		
Resource	\$ 12,053	\$ 11,121
Wood products	57,799	(3,611)
Pulp and paperboard	(7,761)	(9,333)
Consumer products	(3,817)	6,802
Eliminations	435	70
	58,709	5,049
Corporate	(22,942)	(19,624)
Earnings (loss) from continuing operations before taxes	\$ 35,767	\$ (14,575)

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

Potlatch

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Sales Price/Unit	Quarter Ended March 31	
	2004	2003
Wood products (\$ per unit)		
Oriented strand board (m. sq. ft., 3/8" basis)	\$ 320	\$ 162
Lumber (m. bd. ft.)	396	341
Plywood (m. sq. ft., 3/8" basis)	366	275
Particleboard (m. sq. ft., 3/4" basis)	267	200
Pulp and paperboard (\$ per ton)		
Paperboard	630	650
Pulp	418	382
Consumer products (\$ per ton)		
Tissue	1,783	1,847

Shipment Information	Quarter Ended March 31	
	2004	2003
Wood products		
Oriented strand board (m. sq. ft., 3/8" basis)	324,614	322,693
Lumber (m. bd. ft.)	196,017	186,667
Plywood (m. sq. ft., 3/8" basis)	42,372	33,807
Particleboard (m. sq. ft., 3/4" basis)	18,178	16,473
Pulp and paperboard		
Paperboard (tons)	172,249	161,357
Pulp (tons)*	8,718	12,157
Consumer products		
Tissue (tons)	41,469	42,256

* Excludes pulp used internally.