

**Balance Sheets**

2003 amounts unaudited (Dollars in thousands – except per-share amounts)

	March 31, 2003	December 31, 2002
<b>Assets</b>		
Current assets:		
Cash and short-term investments	\$ 28,879	\$ 26,042
Receivables, net	126,396	117,919
Inventories	163,086	159,798
Prepaid expenses	37,984	39,005
Assets held for sale	-	5,000
<b>Total current assets</b>	<b>356,345</b>	<b>347,764</b>
Land, other than timberlands	8,911	8,750
Plant and equipment, at cost less accumulated depreciation	748,149	758,168
Timber, timberlands and related logging facilities	396,438	396,426
Other assets	108,895	105,218
	<b>\$1,618,738</b>	<b>\$1,616,326</b>

	March 31, 2003	December 31, 2002
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Notes payable	\$ 60,000	\$ 40,000
Current installments on long-term debt	15,507	15,607
Accounts payable and accrued liabilities	192,581	189,452
Liabilities related to assets held for sale	-	12
<b>Total current liabilities</b>	<b>268,088</b>	<b>245,071</b>
Long-term debt	621,855	622,645
Other long-term obligations	259,882	261,165
Deferred taxes	50,538	56,654
Stockholders' equity	418,375	430,791
	<b>\$1,618,738</b>	<b>\$1,616,326</b>
Stockholders' equity per common share	\$ 14.61	\$ 15.07
Working capital	\$ 88,257	\$ 102,693
Current ratio	1.3:1	1.4:1

**Segment Information**

(Dollars in thousands)

	Quarter Ended March 31	
	2003	2002
<b>NET SALES</b>		
Resource	\$ 43,797	\$ 119,623
<b>Wood products</b>		
Oriented strand board	52,233	46,665
Lumber	63,651	67,433
Plywood	9,309	9,314
Particleboard	3,295	3,176
Other	8,587	5,986
<b>Total wood products net sales</b>	<b>137,075</b>	<b>132,574</b>
<b>Pulp and paperboard</b>		
Paperboard	104,921	93,917
Pulp	13,140	10,762
<b>Total pulp and paperboard net sales</b>	<b>118,061</b>	<b>104,679</b>
<b>Consumer products</b>	<b>78,064</b>	<b>81,034</b>
<b>Intersegment sales</b>	<b>376,997</b>	<b>437,910</b>
	<b>(43,369)</b>	<b>(119,721)</b>
<b>Total net sales</b>	<b>\$ 333,628</b>	<b>\$ 318,189</b>

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

**Shipment Information**

	Quarter Ended March 31	
	2003	2002
<b>Wood products</b>		
Oriented strand board (m. sq. ft., 3/8" basis)	322,693	313,123
Lumber (m. bd. ft.)	186,667	180,921
Plywood (m. sq. ft., 3/8" basis)	33,807	32,087
Particleboard (m. sq. ft., 3/4" basis)	16,473	16,570
<b>Pulp and paperboard</b>		
Paperboard (tons)	161,357	144,701
Pulp (tons)*	12,157	9,920
<b>Consumer products</b>		
Tissue (tons)	42,256	40,908
* Excludes pulp used internally.		
<b>Sales Price/Unit</b>		
<b>Wood products (\$ per unit)</b>		
Oriented strand board (m. sq. ft., 3/8" basis)	\$ 162	\$ 149
Lumber (m. bd. ft.)	341	373
Plywood (m. sq. ft., 3/8" basis)	275	290
Particleboard (m. sq. ft., 3/4" basis)	200	192
<b>Pulp and paperboard (\$ per ton)</b>		
Paperboard	650	649
Pulp	382	321
<b>Consumer products</b>		
Tissue	1,847	1,980

**Potlatch**601 W. Riverside Avenue, Ste. 1100  
Spokane, WA 99201

**POTLATCH CORPORATION**  
**3 MONTHS REPORT, MARCH 31, 2003**

**Highlights**

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

	Three Months Ended March 31 2003	2002
Net Sales	\$ 333,628	\$ 318,189
Loss From Continuing Operations	(8,891)	(14,938)
Net Loss	(9,565)	(167,381)
Net Loss per Common Share		
From Continuing Operations:		
Basic	\$ (.31)	\$ (.53)
Diluted	(.31)	(.53)
Net Loss per Common Share:		
Basic	(.33)	(5.90)
Diluted	(.33)	(5.90)
Dividends per Common Share (annual rate)	.60	.60

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 SHAREHOLDERS**

We reported a smaller loss from continuing operations for the first quarter of 2003 compared to 2002, largely due to a smaller loss at our Pulp and Paperboard segment and lower interest expense.

The company incurred a net loss from continuing operations of \$8.9 million, or \$.31 per diluted common share, for the first quarter of 2003, compared to a loss from continuing operations of \$14.9 million, or \$.53 per diluted common share, for the first quarter of 2002. Including discontinued operations, the company incurred a net loss of \$9.6 million, or \$.33 per diluted common share, for 2003's first quarter, compared to a net loss of \$167.4 million, or \$5.90 per diluted common share for the same period last year. Discontinued operations consist of the company's former printing papers segment and a hardwood sawmill. Net sales for the first quarter of 2003 were \$333.6 million, slightly better than the \$318.2 million recorded in the first quarter of 2002.

The Resource segment reported operating income of \$11.1 million for the first quarter of 2003, an improvement over the \$10.0 million earned in the first quarter of 2002. Gains on the sale of lands into higher value, non-timber uses were largely responsible for the favorable comparison.

The Wood Products segment incurred an operating loss of \$3.6 million for the first quarter of 2003, compared to a loss of \$1.1 million recorded in the first quarter of 2002. Wood products markets continued to be oversupplied from both Canadian and domestic sources during the first three months of 2003. The segment's net sales were positively influenced by slightly improved shipments and sales prices for oriented strand board, which partially offset lower sales prices for lumber.

The Pulp and Paperboard segment reported an operating loss for 2003's first quarter of \$9.3 million, versus a loss of \$19.0 million for 2002's first quarter. Higher shipments for both paperboard and pulp, as well as higher sales prices for pulp, positively affected results for the quarter. Pulp and paperboard production at the Lewiston, Idaho, facility was significantly higher during the first quarter, resulting in substantially lower unit production costs compared with the first quarter of 2002.

The Consumer Products segment recorded operating income of \$6.8 million for the first quarter of 2003, significantly below first quarter 2002 operating income of \$13.3 million. Although product shipments for the segment were 3% above last year's levels, additional promotional costs in the first quarter of 2003 resulted in lower net sales prices, which more than offset the benefits of higher shipments. Freight costs also adversely affected results for the first quarter of 2003, rising approximately 15% compared to the first quarter of 2002.

Lower interest expense was due to significantly less debt outstanding during the first quarter of 2003 compared to the same period last year. The company reduced overall debt by approximately \$470 million during 2002, in part by using proceeds from the sale of Printing Papers segment assets.



L. Pendleton Siegel  
Chairman and Chief Executive Officer



Richard L. Paulson  
President and Chief Operating Officer

April 16, 2003

**Statements of Operations**

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

	Three Months Ended March 31	
	2003	2002
Net sales	\$ 333,628	\$ 318,189
Costs and expenses:		
Depreciation, amortization and cost of fee timber harvested	26,859	30,484
Materials, labor and other operating expenses	290,504	272,065
Selling, general and administrative expenses	17,918	21,992
Restructuring charge	227	-
	335,508	324,541
Loss from operations	(1,880)	(6,352)
Interest expense	(12,762)	(18,626)
Interest income	67	490
Loss before taxes on income	(14,575)	(24,488)
Provision (benefit) for taxes on income	(5,684)	(9,550)
Loss from continuing operations	(8,891)	(14,938)
Discontinued operations:		
Loss from discontinued operations (including loss on disposal of \$45 and \$245,573)	(1,106)	(249,908)
Income tax benefit	(432)	(97,465)
Net loss	\$ (9,565)	\$ (167,381)
Net loss per common share from continuing operations:		
Basic	\$ (.31)	\$ (.53)
Diluted	(.31)	(.53)
Net loss per common share:		
Basic	(.33)	(5.90)
Diluted	(.33)	(5.90)
Average shares outstanding (in thousands):		
Basic	28,617	28,353
Diluted	28,617	28,353

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

**Condensed Statements of Cash Flows**

Unaudited (Dollars in thousands)

	Three Months Ended March 31	
	2003	2002
<b>CASH FLOWS FROM OPERATIONS</b>		
Net loss	\$ (9,565)	\$ (167,381)
Adjustments to reconcile net loss to net operating cash flows:		
Loss from discontinued operations	647	2,644
Loss on disposal of discontinued operations	60	216,573
Depreciation, amortization and cost of fee timber harvested	26,859	30,484
Deferred taxes	(6,116)	(91,162)
Working capital changes	(11,059)	(4,313)
Net cash provided by (used for) operating activities of continuing operations	826	(13,155)
<b>CASH FLOWS FROM INVESTING</b>		
Decrease (increase) in restricted cash	(45)	98,200
Decrease in short-term investments	400	30,500
Additions to plant and properties	(13,531)	(4,985)
Other, net	(3,356)	(8,029)
Net cash provided by (used for) investing activities of continuing operations	(16,532)	115,686
<b>CASH FLOWS FROM FINANCING</b>		
Change in book overdrafts	3,944	(5,836)
Increase in notes payable	20,000	15,000
Retirement of long-term debt	(890)	(100,483)
Issuance of treasury stock	1,440	2,139
Dividends	(4,291)	(4,252)
Other, net	(5,086)	(3,907)
Net cash provided by (used for) financing activities of continuing operations	15,117	(97,339)
Cash from continuing operations	(589)	5,192
Cash from discontinued operations	3,781	(3,463)
Increase in cash	3,192	1,729
Balance at beginning of period	8,973	7,475
Balance at end of period	\$ 12,165	\$ 9,204

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