

Georgia-Pacific



PLAINTIFF'S EXHIBIT

GP-1358

1973 Annual Report

SGP 0030440

Growing Now and for the Future

1973 has been another year of record growth for Georgia-Pacific's timber holdings.

Today, our Company-owned lands, aided by advanced forest management techniques, are now growing more timber than we harvest for use in our plants and mills. This rapid increase in our timber growth rate has significantly reduced our dependence on National Forest timber.

Georgia-Pacific is one of the largest private owners of timber and timberlands in the United States, with over 4.5 million acres of prime commercial timberlands owned in fee, and another 1.25 million acres under cutting rights. This acreage is located close to our manufacturing facilities and in geographic and climatic regions recognized as some of the finest tree-growing areas in the world.

Of our timberlands owned in fee, 3.3 million acres are in the United States. These holdings range from

the mixed hardwoods and softwoods of the Northeast to the fir, hemlock and associated species of the Pacific Northwest; from the hardwoods of Appalachia and the pines and hardwoods of the South to the mixed redwood and fir of Northern California.

Beneath most of these tree lands, we own mineral rights which in some areas are producing oil, natural gas and coal. These underground assets were acquired only incidentally to our acquisition of prime timberlands, our assurance of a continually increasing supply of trees for the future.

Another 1.2 million acres of our fee-owned timber is outside the United States. These holdings include stands of exotic hardwood in South America and northern hemlock and spruce in Southeast Canada.

The remaining 1.25 million acres of our 5.75 million-acre total consists of prime timberlands under long-term cutting rights. In the United States, these

G-P Douglas fir forest near Eugene, Oregon



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exclusive cutting rights are located primarily in the Southern pine stands of the Mid-South and Southeast, where we have found that a mixture of fee ownership and harvest rights on private lands is the most profitable long-range approach. Overseas, our interests include large timber concessions in The Philippines and the Republic of Indonesia.

But these vast stands of timber are just the beginning of the Georgia-Pacific growth story. It's what we do with our forests that makes the difference.

The story actually starts in our research centers and nurseries, because it was here we found the key to significantly increasing the annual growth rate of our trees—through a combination of modern forest management, genetically superior seeds, fertilizer and selective thinning.

There are a number of ways to reforest commercial timberlands: Nature's way is to grow trees from seed broadcast by the wind—a slow and haphazard process that often requires several growing seasons before a new crop of seedlings is established. Another is by broadcasting seed over newly harvested areas with the aid of helicopters. Still another technique is the planting of nursery-grown bare root seedlings. But this, too, has proved to be a slow and costly process often resulting in a high seedling mortality rate.

So we have developed what we believe is today's most effective method of reforestation. We produce and carefully nurture a quantity of genetically improved seeds developed as a result of our decades-long search for a faster growing, more disease-resistant tree.

Our search for genetically superior seeds started when Georgia-Pacific foresters concluded that the same genetic principles which had resulted in vastly improved corn and other agricultural commodities could be put to work to improve trees. The foresters searched out superior young, second growth trees of seed-producing age on company timberlands and attempted to pass along their characteristics to succeeding generations. A few trees were located that had grown faster and contained better quality wood than others of their age group. They also showed better resistance to disease.

In order to get better seeds, seed orchards were established where new branch growth from superior parent trees were grafted to small trees, enabling foresters to reach them easily. The seed cones from these superior parent trees were then fertilized with pollen from other superior trees.

The trees resulting from these "super seeds" have proved their worth. In Douglas fir country, a one-



G-P southern pine forest near Crossett, Arkansas



year-old seedling from a "super seed" is five times the size of a natural seedling. And by the end of the second year, it looks more like a four-year-old than a two-year-old tree.

Currently, Georgia-Pacific is planting thousands of these "super seeds" in cone-shaped containers filled with a mixture of fertilizer, peat moss and vermiculite. After six to ten months in the nursery, the healthy seedlings, now called plugs, are taken to the planting site. The plugs are carefully removed from their containers and planted by a device recently perfected by our foresters. This method allows one man to plant 1,700 seedlings in a day, compared to the 500 bare root seedlings which can be hand-planted in the same time.

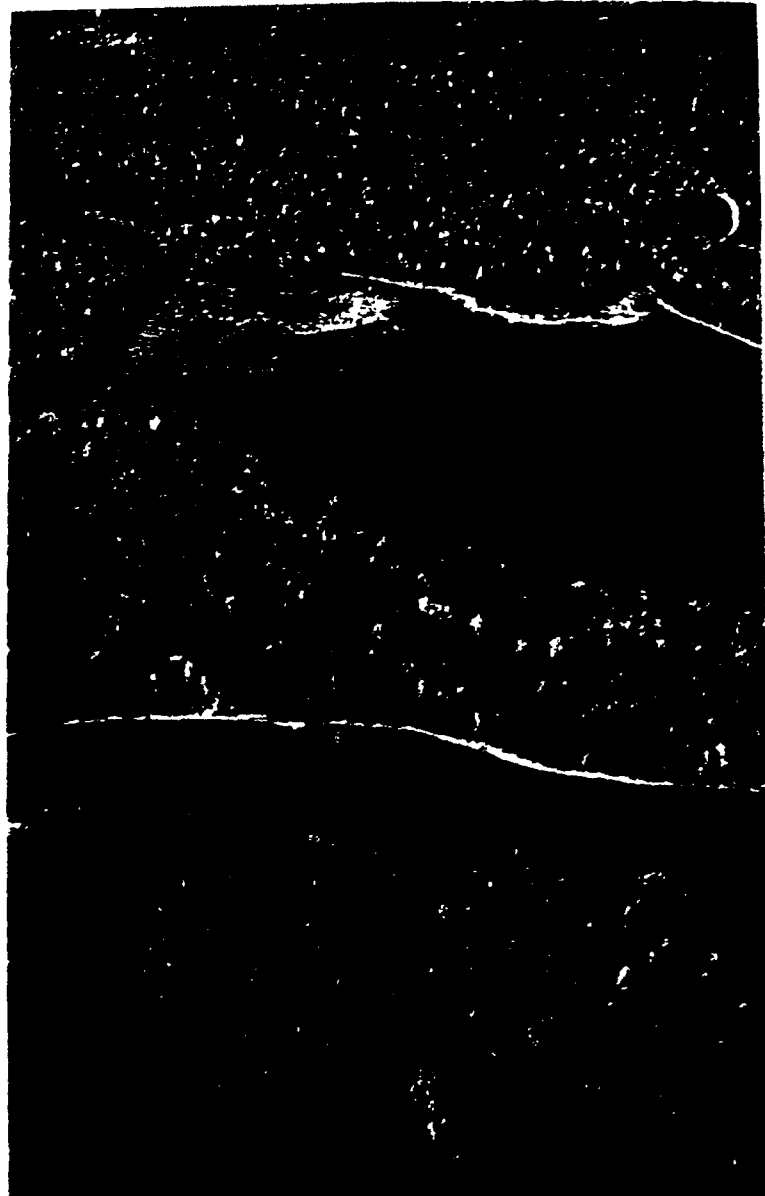
Today, we're planting five trees for every one we harvest. And to keep up with the ever-growing demand for wood and wood fiber, we'll be planting even more in the future. That's why our new system is so important: it allows each man to plant more and better trees resulting in faster growing, more productive forests.

In the past, man let Nature dictate the life cycle of the forests. When trees became old, they were easy prey for disease and insects, lightning and wind—and finally, fire. Then the few remaining trees would eventually reseed the devastated forest land and the 80 to 100-year cycle would begin anew.

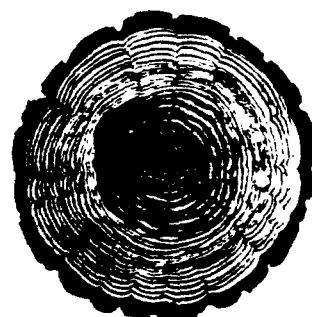
But today, by harvesting trees before they get too old and overripe, man utilizes the forests when they are at their prime. And reforestation starts as soon as conditions are favorable, usually within the first year. In many parts of the country, we are replanting harvested areas with genetically superior trees which are properly spaced to promote maximum growth. This practice helps us keep our forests vital and productive.

Georgia-Pacific research and forest management practices have already shown dramatic results: Foresters once talked about 50 to 80-year cycles for growing trees. Then it dropped to 40 to 60 years. And now, we feel we can talk confidently of 30 to 40-year cycles.

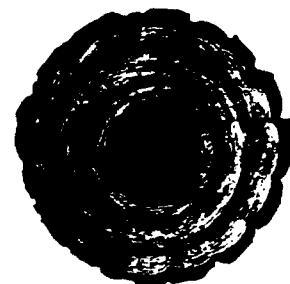
Many of these improvements have been developed at our nurseries and research centers around the country. Our newest center, in Mosby Creek, Oregon, is a graphic example of timber management at work. Two logs cut from nearby forests are on display. One is 36 inches in diameter and the other 38 inches. Yet the smaller log, which somehow survived forest fires and windstorms, is 246 years old. The other, larger log, even under the less sophisticated timber manage-



G-P mixed softwood and hardwood forest near Woodland, Maine



*52-year-old tree
from managed forest*



*246-year-old tree from
unmanaged forest*

ment of past decades, required only 52 years to reach harvest size.

Today, the results of our new forestry techniques can be seen on our timberlands where young, vigorous trees have all but replaced the over-mature, decaying trees that once covered these lands. And as a result of reforestation and acquisition, we now have forests in staggered age classes from very young to mature trees.

Our new-growth timber is now adding about 1.5 billion board feet of new fiber annually.

A generation ago, the idea of new, harvestable trees coming along every year was still rated an experiment. Today it is a fact, and we have the permanent timber operations to prove it.

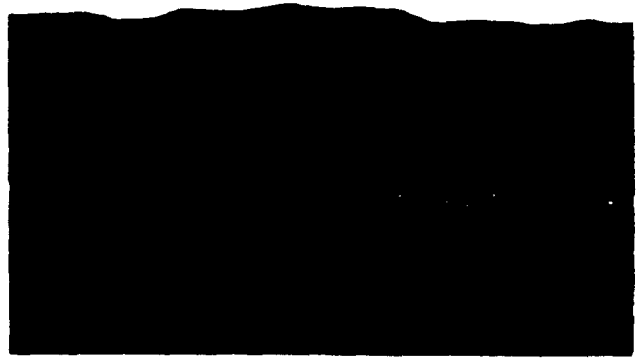
In the past, mill town came and went with the supply of timber. Today, with modern forestry techniques, Georgia-Pacific mills and plants are assured of a continued and increasing supply of timber, because our new forests are permanent. As more of our vigorous young trees reach harvest age, we will build new manufacturing facilities to utilize them. And these new mills, like our present ones, will be located near the source of timber, and in areas easily accessible to world markets.

As the annual fiber growth on our timberlands increases, the value of that fiber also advances. A recent study (see chart) shows that timber is increasing in value faster than any other basic commodity. And it will continue to increase. For as the world's supply of natural resources dwindles, the demand for timber—

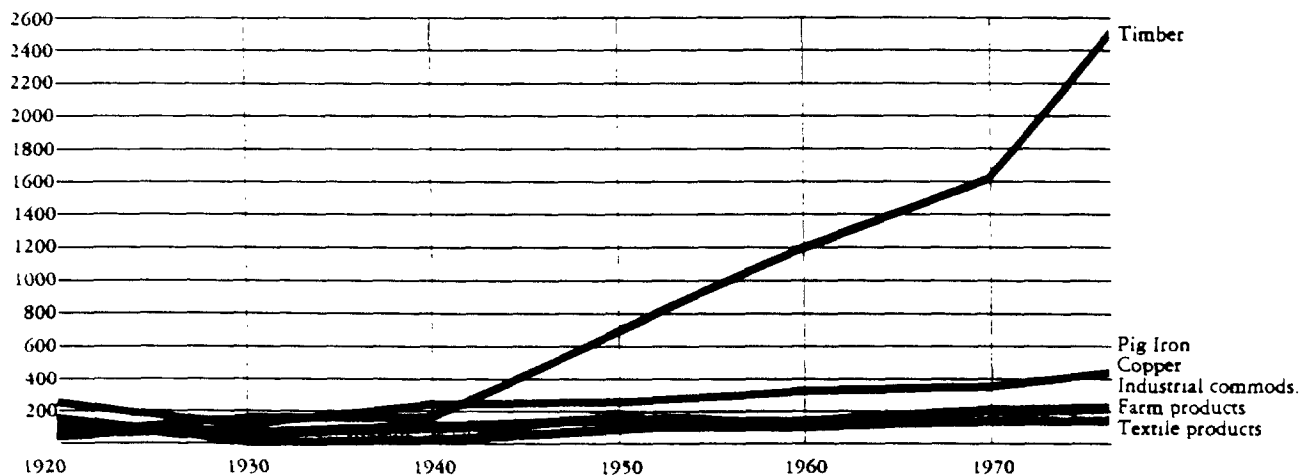
our renewable resource—will grow even faster.

Georgia-Pacific's natural resource position has never been stronger: the vast majority of our land is now planted in young, vigorously growing trees, in staggered age classes to assure a continuing supply of timber. In many of those areas, our modern forest management techniques and genetically superior trees now make it possible to grow two or three crops of trees in the time it once took for a single crop. As a result, we can look forward to a continuous and growing supply of timber to help meet the world's increasing demand for wood products. With our timber growth and value accelerating each year, it's not surprising that in 1973, the first year of our five-year growth program, Georgia-Pacific performance exceeded targets in every area.

G-P hardwood forest near Rainelle, Virginia



Growth in Value: Timber vs. Other Commodities



Price Indexes of Timber, selected BLS price groups, Pig Iron, and Copper*

* Source: John McKnight Economic Forecast, October 12, 1973.

1926 = 100

The Year 1973...and Beyond

In Retrospect

The year 1973 was one of outstanding achievement for Georgia-Pacific, resulting in all-time highs in sales, net income and cash generated from operations. The combination of inflation and government price controls made 1973 a most unusual and very complex year.

Housing starts at the year's beginning were at all-time highs, causing shortages in almost all building product lines. At the same time, demand for pulp and paper began its recovery from the devastatingly low levels of 1971-72 in both domestic and world markets. Government control of the Corporation's prices remained under 1972 guidelines until April, 1973 when controls were eased somewhat to the voluntary level prescribed under Phase III. Then in June, prices of all products sold by the Corporation were frozen. On August 12, lumber and plywood price controls were removed completely, but all other corporate products remained under price control guidelines set forth by Phase IV.

It has been Georgia-Pacific's firm opinion for the

past two years that the real solution to our inflation problems is to let the competitive market forces set the price levels of our products. Government regulation in the marketing process only serves to thwart the stabilizing effects of supply and demand.

The mark of a dynamic company, a growth company, is to be found in its ability to handle complex and difficult problems. We believe 1973 afforded the Corporation the opportunity to once again demonstrate its ability to carefully develop new manufacturing skills leading to new efficiencies and to new and better products that enabled the Corporation to penetrate even deeper into all the markets it serves.

As we enter the year 1974, we again see opportunities for continued growth and believe the financial position of the Corporation affords an extremely strong base from which our continued growth can be expanded during the years ahead.

Financial Position

It has long been the policy of your Corporation to combine debt and equity financing in a manner which

G-P Douglas fir forest near Toledo, Oregon



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provides security against any sudden swings in our economic scene and, at the same time, is geared to the cash needs of the Corporation.

At year end, for the first time in corporate history, our total assets exceeded \$2 billion. Long-term debt financed \$631.4 million of these assets. Included in our long-term debt at year-end was \$97.8 million of short-term commercial paper, backed up by our \$120 million revolving line of credit from commercial banks. The flexibility of this revolving line of credit has enabled the Corporation to pursue either banking channels or other sources of money at the most economic cost over the past years. The average interest rate for long-term debt at year end was approximately 7.8 percent.

The financing arrangements for 1974 are finalized. As of March 1, 1974, Georgia-Pacific arranged for a new revolving line of credit with 27 commercial banks in the amount of \$225 million. The new line will replace our current \$120 million revolving line of credit. The new arrangements will provide for a revolving credit through December 31, 1976, at which time the

outstanding amount can be converted to a term loan providing for 12 equal semi-annual installments commencing October 1, 1977. The interest rate which varies with changes in the prime rate is fixed at $\frac{1}{4}$ of 1 percent above the prime rate through December 31, 1976 and will be $\frac{3}{8}$ of 1 percent over the prime rate thereafter.

It is our current intention to pursue the use of commercial paper sales using the bank revolving credit line as backing for such commercial paper issued. We believe this will afford the Corporation the lowest possible cost of money. An important aspect of this type of financing is the advantage we possess in using short-term money with long-term payment requirements. At the same time we have the flexibility of switching sources of money should it prove to be more advantageous.

The financial position of Georgia-Pacific is strong and more than capable of meeting the demands of the year ahead.

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Investing for New Growth

Early in 1973 the objectives of our new five-year growth plan were clearly spelled out: The minimum target for 1977 was established at sales of \$3.5 billion, net profits after taxes of approximately \$200 million, and earnings per share of approximately \$3.75. In order to accomplish these goals, capital expenditures for the addition of timber and timberlands, together with new and continued modernization of facilities, were required. Thus, during 1973, the Corporation spent \$337 million in pursuit of this policy. Of this total, \$113 million was used by adding in excess of 200,000 acres of timber and timberlands, mainly in

the Northern California redwood regions, to further strengthen our raw material base.

The 1973 capital expenditures for property, plant and equipment totaled \$224 million and were made for the following principal purposes:

Building Products

\$ 88 million

Additions in annual capacity of:

467.4 million sq. ft. of Plywood &

Specialties

471 million bd. ft. of Lumber

292 million sq. ft. of Gypsum Board

12,000 tons of Gypsum Plaster

16,000 tons of Gypsum Joint System

G-P plywood mill at Springfield, Oregon



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Pulp & Paper	\$ 42 million	Distribution Facilities	\$ 32 million
<i>Additions to annual capacity of 118,000 tons of Premium Pulp and Paper 288 million sq. ft. of Corrugated Packaging Products</i>		<i>Additions to seven distribution centers for a total of 128</i>	
Chemicals	\$ 47 million	<i>Warehouse facilities expanded from 7.2 million sq. ft. to 9 million sq. ft.</i>	
<i>Additions to 686,000 sq. ft. new Chemical Products Continued progress in completion of Plaquemine, La. complex</i>		Miscellaneous Operations and Amounts for Defensive Spending for Maintenance and Upgrading of Facilities	\$ 15 million
		Total	\$224 million

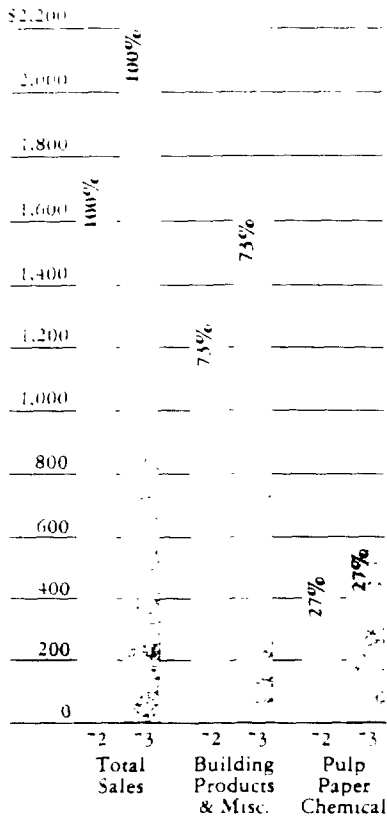


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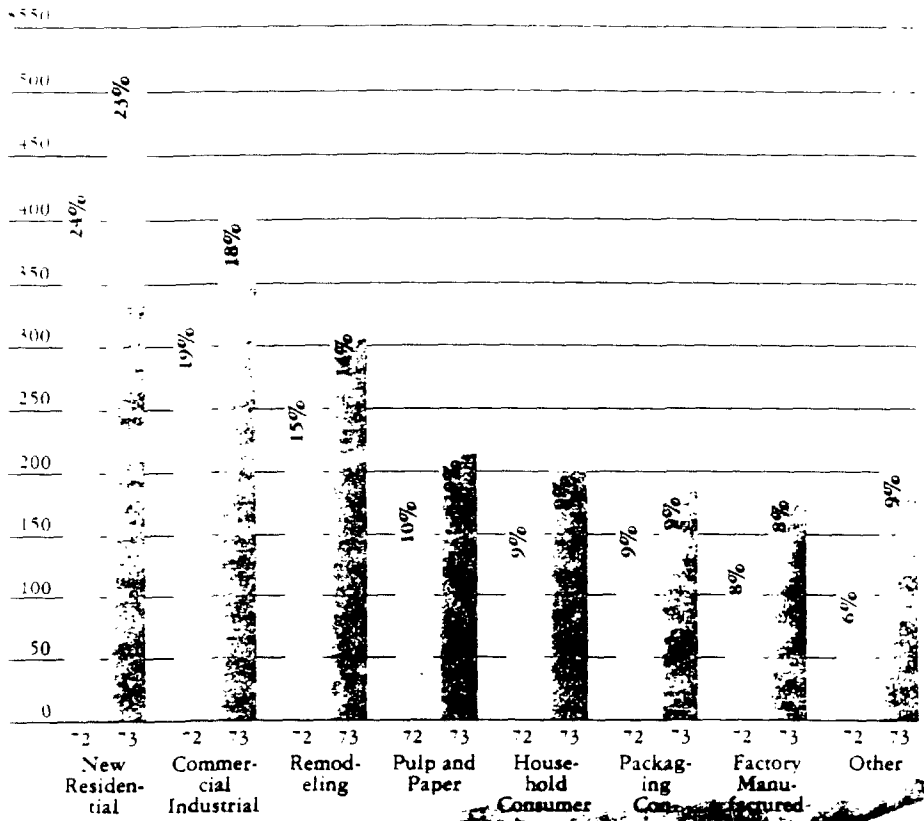
Georgia-Pacific Sales - 1972 versus 1973

Georgia-Pacific Limited

Sales



Sales by Market Categories



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Sales and Contribution to Earnings

The real strength of Georgia-Pacific is two-fold. First is the ability to take raw materials, timber, gypsum and petrochemicals from fee ownership and other sources and convert them into usable products. Second is the diversity of the markets which we serve as shown in the previous chart. This diversity of markets gives Georgia-Pacific flexibility and stability through the economic peaks and valleys to adapt to and capitalize on shifts in market opportunities. These are the factors which allow the Corporation to utilize its raw materials and converting facilities to its best advantage and give us the confidence to predict that 1974 will be another successful year of growth.

The drama of the relationship of sales and profits for 1973 compared to 1972 can best be summarized by the following table. Contribution to earnings is the net profit before interest, income taxes, unallocated general and administrative expense and the extraordinary charge incurred in the settlement of the gypsum lawsuit.

<i>For the Year Ended December 31</i>				
<i>1973</i>		<i>1972</i>		
<i>Amount</i>	<i>Per Cent</i>	<i>Amount</i>	<i>Per Cent</i>	
<i>(In Millions)</i>				
Sales—				
Building Products and Misc.	\$1,631	73%	\$1,297	73%
Pulp, Paper and Chemicals	598	27%	477	27%
Total	<u>\$2,229</u>	<u>100%</u>	<u>\$1,774</u>	<u>100%</u>
Contributions to Earnings—				
Building Products and Misc.	\$ 270	77%	\$ 203	93%
Pulp, Paper and Chemicals	83	23%	14	7%
Total	<u>\$ 353</u>	<u>100%</u>	<u>\$ 217</u>	<u>100%</u>

As the foregoing table indicates, the real story which unfolded in 1973 was the dramatic recovery of pulp, paper and chemicals. If you recall, during

1970-71, demand for pulp throughout the world lagged far behind supply. The result was a massive inventory accumulation which was liquidated in 1972, keeping that year's profits under constant pressure because of price weakness. During 1973 an unlikely chain of events resulted in an extremely strong pulp, paper and chemical market. The first major event that affected the industry was the devaluation of the U.S. dollar which gave foreign countries a distinct advantage in purchasing power. The second event was the continuation of price controls, maintaining prices at lower levels than foreign markets, thus diverting tonnage away from domestic markets. The third significant event was the occurrence of widespread shortages—a natural result of a growing economy that was suffering from market dislocations and no new capacity. Thus, by the end of 1973, demand for many of our pulp, paper and chemical products exceeded production, complicating our marketing situation.

Energy

As energy shortages continue to cause concern in many of the nation's industries, we feel the Company is in a particularly advantageous position. Several years ago, in anticipation of possible energy shortages, we launched a search to find alternate fuel sources. Today the results of those efforts are paying off. By utilizing waste products from our mills and plants, we are now generating internally 32 percent of our total fuel requirements and 29 percent of our electrical energy needs. A few of our operations are more than self-sufficient and provide energy to local communities.

Energy conservation programs range from a company-wide information program urging employees to conserve energy both at home and on the job to recycling heated water generated in our manufacturing processes.

Looking Ahead

The plans are now complete for the continuation of our growth story, and currently it is projected that in 1974 the Company will spend approximately \$275 million on capital additions and upgrading of existing

facilities. Major new items will include two new Southern pine sawmill plants at Durand, Georgia, and Talladega, Alabama, with a combined capacity of 15.5 million square feet of pine board and plating plant at Griseville, Arkansas, with a capacity of 1.2 million square feet of softwood sawmill at Woodland, Maine, producing 5 million board feet; an Appalachian hardwood sawmill at Beckley, West Virginia, producing 14 million board feet; pine sawmills at Citronelle, Fayette and Hurtsboro, Alabama; Glenwood and Stamps, Arkansas, and Camilla, Georgia, with a total production of 264 million board feet; an addition to the Roxie, Mississippi, stud mill of 15 million board feet; and gypsum plant capacity additions of 116 million square feet.

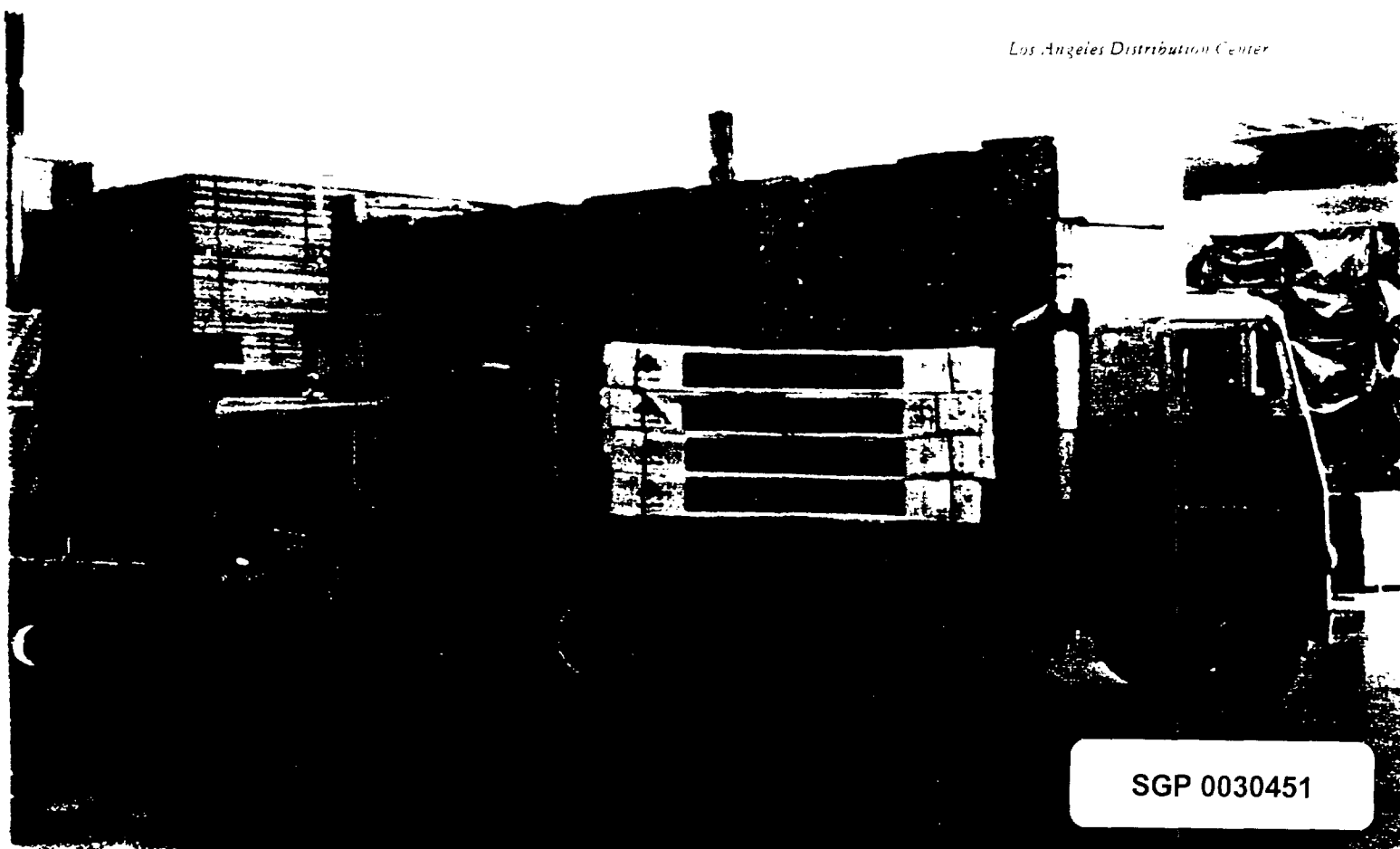
In the pulp, paper and chemical field, the Company will add 135,400 tons of primary pulp and paper capacity at seven locations, mainly at Toledo, Oregon; 16,600 tons of additional converted paper products capacity at six locations; and 698,000 tons of chemical products at its Plaquemine, Louisiana, complex consisting of chlorine, caustic and polyvinyl chloride.

Our integrated manufacturing and distribution sys-

tem continues to provide a unique marketing opportunity for our building products divisions. Our distribution centers, which historically have sold more building products than we can produce, keep our manufacturing facilities operating at optimum capacity. At the end of 1973, we had 128 distribution centers. During 1974 the number will increase to 140. Six of the new branches will be in Canada, a new and rapidly expanding market for Georgia-Pacific products. The remaining branches will be located in small urban communities around the United States—in areas where our sales have been minimal. These new distribution centers will not affect sales in our existing centers located nearby as they are slated for areas where the greatest growth and greatest demand for our type of products is expected.

The move into Canada is particularly exciting for Georgia-Pacific. This is a huge and growing market which is not experiencing any decline in residential construction. By the end of 1975, we expect that Georgia-Pacific Building Materials, Ltd., in Canada, will be generating about \$100 million in new business annually.

Los Angeles Distribution Center

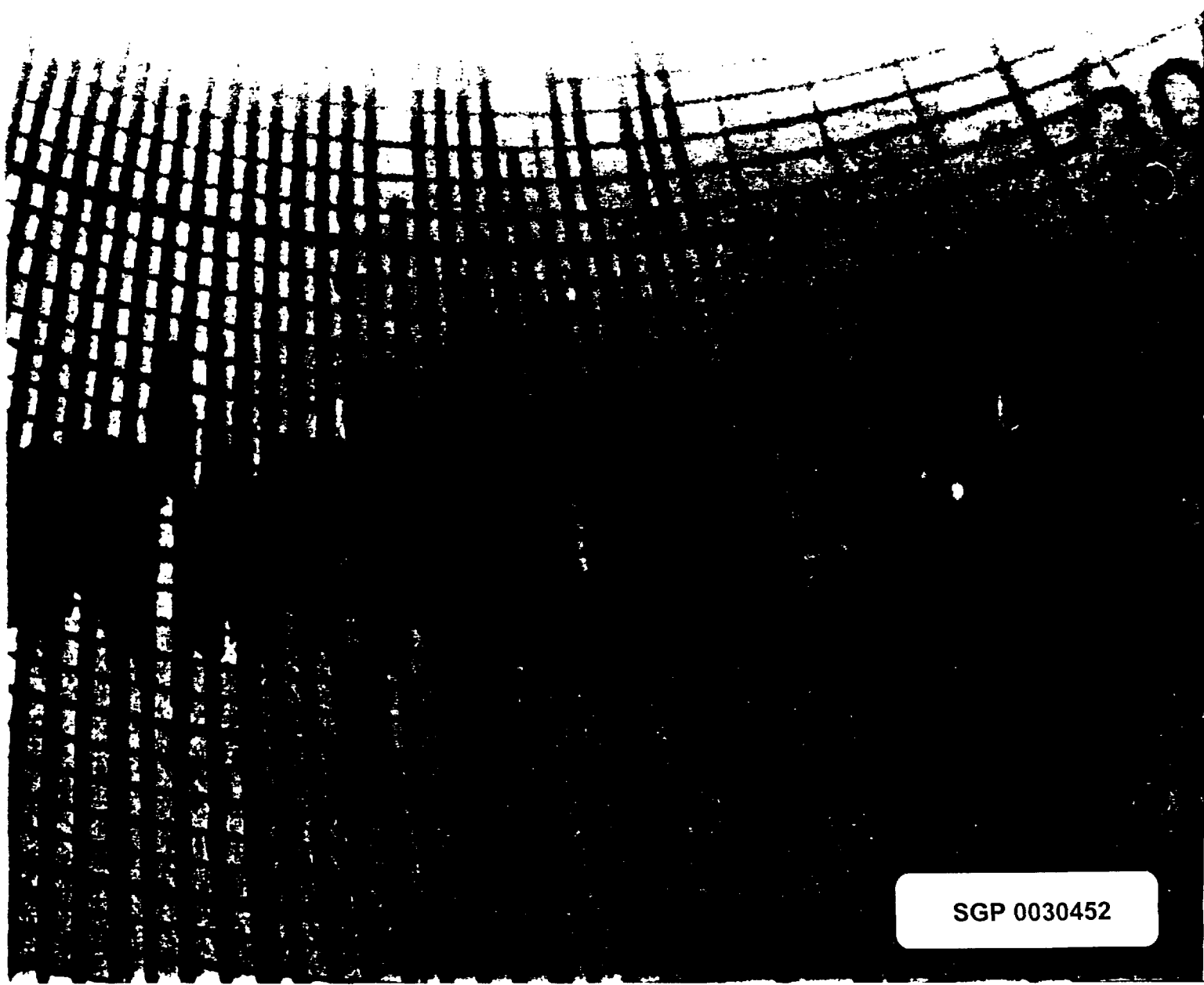


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Building products are going to be under pressure throughout the first half of 1974, principally because of the residential construction downturn. Our current outlook calls for housing to resume its uptrend, commencing in the second half, thus enabling housing starts to average 1.7 million for the year, and the rate of starts possibly to reach the 2 million level by the end of the year. In building products, we look for increased activity in the commercial and industrial sector of our business, plus additional volume in the repair and remodeling markets. In the agricultural markets, we anticipate good activity as this sector enjoys a return to profitable farming activity.

In pulp, paper and chemicals, domestic and world demand remains strong. Lack of new capacity should make for even stronger markets, thus enabling the dramatic growth of 1973 to continue.

In viewing 1974 from this early vantage point, we are confident that the managed growth of Georgia-Pacific will stand the test of 1974 with all of its uncertainties and problems.



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