

Georgia-Pacific is committed to acquiring Great Northern Nekoosa. We believe the merger will create a stronger company, enabling us to be more competitive in the global marketplace of the 1990s.

was not completed

GP

Because the transaction

by publication date,

you will find this year's annual report limited to management's discussion and analysis, and financial statements showing the record-level results we achieved in 1989.

About the Company

Georgia-Pacific Corporation was founded in Augusta, Georgia, in 1927 as a wholesaler of hardwood lumber and is now a major manufacturer and wholesale distributor of building products, industrial wood products, pulp, paper, packaging and related chemicals.

Georgia-Pacific is one of the world's largest manufacturers of forest products. Our network of building products production facilities and distribution centers is the industry's most extensive, serving the entire United States and overseas markets.

Georgia-Pacific has also become a national presence in the paper industry, with facilities across the U.S. producing annually five million tons of pulp, printing and writing paper, tissue, paperboard and corrugated containers.

Georgia-Pacific currently employs approximately 44,000 people at facilities in 48 states, Brazil, Canada and the United Kingdom. G-P also owns or controls more than six million acres of timberland in North America, as well as reserves of gypsum and other minerals.

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(Dollar amounts, except per share, and shares are in millions)

	1989	1988	Change
Net sales	\$10,171	\$9,509	7%
Net income	661	467	42
Earnings per share	7.42	4.76	56
Cash provided by operations	1,358	865	57
Common stock repurchased	468	395	18
Cash dividends paid	130	123	6
Total assets at year end	7,056	7,115	(1)
Return on capital employed	13.6%	12.1%	
Total debt to capital	40.1%	44.1%	
Cash dividends paid per share of common stock	\$ 1.45	\$ 1.25	16%
Shares of common stock repurchased	9.7	10.3	(6)
Shares of common stock outstanding at year end	86.7	94.8	(9)
Number of shareholders of record	49,000	53,000	(8)
Number of employees	44,000	44,000	—

1989 Compared with 1988

Georgia-Pacific's consolidated net sales of \$10.2 billion in 1989 were 7.0 percent higher than in 1988. Net income rose by 41.5 percent to \$661 million in 1989, compared with \$467 million in 1988. Both the pulp and paper and building products segments reported higher sales and operating profits in 1989. Earnings per share increased 55.9 percent to \$7.42 in 1989, compared with \$4.76 in 1988, because of the increase in net income and a 2.0 million reduction in the average number of outstanding shares resulting from the Corporation's stock repurchase program.

Selected Industry Segment Data

(Millions)	Year ended December 31		
	1989	1988	1987
<i>Net sales</i>			
Building products	\$ 6,088	\$6,029	\$5,755
Pulp and paper	4,042	3,436	2,810
Other operations	41	44	38
<i>Total net sales</i>	<i>\$10,171</i>	<i>\$9,509</i>	<i>\$8,603</i>
<i>Operating profits</i>			
Building products	\$ 533	\$ 428	\$ 533
Pulp and paper	917	616	383
Other operations	15	10	10
<i>Total operating profits</i>	<i>1,465</i>	<i>1,054</i>	<i>926</i>
General corporate	(118)	(79)	(70)
Interest expense	(260)	(197)	(124)
Unusual item	—	—	66
Income taxes	(426)	(311)	(340)
<i>Net income</i>	<i>\$ 661</i>	<i>\$ 467</i>	<i>\$ 458</i>

The building products segment reported sales of \$6.1 billion in 1989, a 1.0 percent increase from 1988. Operating profits of \$533 million in 1989 were 24.5 percent higher than \$428 million in 1988. Returns on sales were 8.8% and 7.1% in 1989 and 1988, respectively. Improved oper-

ating profits were primarily the result of higher prices for structural panels during most of 1989. Tight timber supplies in the Pacific Northwest, resulting from environmental restrictions, had a positive impact on plywood pricing. Supplies and prices were also impacted by strikes and frequent rains, which hampered logging activities. By the end of the year, however, plywood prices had fallen substantially from the peak levels reached at the beginning of the fourth quarter.

The building products segment's sales and income are affected by changing economic conditions including the level of housing starts, the level of repair and remodeling of existing housing, commercial building activity and the availability and cost of mortgage funds. Assuming that interest rates and housing starts remain at current levels, we expect that lower prices for structural panels will reduce this segment's profits in 1990.

Sales in the pulp and paper segment were \$4.0 billion in 1989, 17.6 percent higher than in 1988. Operating profits in 1989 of \$917 million were 48.9 percent higher than \$616 million in 1988. Returns on sales improved to 22.7% in 1989, compared with 17.9% in 1988. Improved results in 1989 were primarily attributable to higher volume resulting from the acquisition of our Brunswick pulp and paper mill and the start-up of a new paper machine at Port Hudson, Louisiana (both in the middle of the 1988 third quarter). Higher prices in our major product

lines during much of 1989, particularly market pulp and printing paper, contributed significantly to this segment's increased profits. In the latter part of 1989, however, prices for printing paper and linerboard weakened. Tissue operations had better results in 1989 as a result of internal improvements and strong demand.

Demand for pulp and paper products correlates closely with real growth in the gross national product, but is also affected by industry productive capacity, currency exchange rates and foreign market conditions. We expect that continued sluggish economic growth coupled with increased industry capacity will result in lower prices and profits for this segment in 1990, particularly for market pulp and, to a lesser extent, printing paper and linerboard.

General corporate expense was \$118 million in 1989, compared with \$79 million in 1988. The increase is primarily attributable to a \$31 million increase in expense for common stock compensation programs.

The Corporation's interest expense was \$260 million in 1989, compared with \$197 million in 1988. Interest expense in 1989 is higher primarily due to a higher level of average debt in 1989. As a result of the Corporation's decision to maintain a higher ratio of total debt to capital the level of debt was increased during 1988 and remained near that increased level during most of 1989. The Corporation's cash flow to interest ratio was 5.9 in 1989, compared with 4.8 in 1988.

Liquidity and Capital Resources

Cash Flow

In 1989, cash provided by operations was \$1.36 billion, compared with \$865 million in 1988. The \$493 million increase resulted from a \$341 million increase in net income after adjustments for items not affecting cash and a \$152 million decrease in cash used for working capital. Cash flow from operations during 1989 exceeded the amount used for capital expenditures and dividend payments. The excess cash was primarily used to repurchase the Corporation's common stock.

Financing Activities

During 1989, the Corporation repurchased 9,674,000 shares of common stock for \$468 million, at an average price of \$48.38 per share. The Corporation suspended stock repurchases in connection with its proposal to acquire Great Northern Nekoosa Corporation ("Great Northern"), described in "Agreement to Acquire Great Northern," beginning on page 7. If the acquisition is consummated, the additional debt incurred would increase the Corporation's ratio of total debt to capital substantially beyond the 40% to 45% target established by the Corporation's board of directors.

Georgia-Pacific's ratio of total debt to capital was 40.1% at December 31, 1989, compared with 44.1% at December 31, 1988. Effective in the 1989 fourth quarter, the Corporation's board of directors voted to increase

the quarterly dividend on common stock from 35 cents to 40 cents per share.

At December 31, 1989, the Corporation had registered for sale up to \$500 million of debt securities, including medium-term notes, under shelf registration statements filed with the Securities and Exchange Commission.

At December 31, 1989, the Corporation had a revolving credit agreement with 27 banks which established unsecured revolving lines of credit totaling \$1.5 billion, \$750 million of which were active. Bank of America National Trust and Savings Association ("Bank of America") is the agent bank under this agreement, which does not expire until June 24, 1991. No amounts were outstanding under this agreement at December 31, 1989. At December 31, 1989, these bank lines of credit were being used to support approximately \$302 million of commercial paper and other short-term borrowings. Management believes that the Corporation's capacity to generate cash internally, together with its existing committed lines of credit and other available financing sources, is adequate to finance growth and meet operating and liquidity needs for the foreseeable future. However, in the event the acquisition of Great Northern is consummated, the Corporation will require additional financing as described in "Agreement to Acquire Great Northern," beginning on page 7.

As a result of the Corporation's proposal to acquire Great Northern, Standard & Poor's Corporation and Moody's

Investor Service, Inc. announced that they had placed the ratings of the Corporation's senior debt and commercial paper under review for a possible downgrading.

Investing Activities

Capital expenditures in 1989 were \$499 million, including \$135 million in the building products segment, \$310 million in the pulp and paper segment, \$46 million for timber and timberlands and \$8 million of other expenditures.

A new recovery boiler at our Woodland, Maine pulp and paper mill, which resulted in increased pulp capacity of 23,000 tons annually, was completed in the third quarter of 1989 at a cost of approximately \$77 million. A new recovery boiler at our Brunswick, Georgia pulp and paper mill will cost approximately \$84 million and is expected to be completed in the third quarter of 1990.

Capital expenditures of approximately \$565 million are projected for 1990, excluding acquisitions (see "Agreement to Acquire Great Northern," beginning on page 7). This includes approximately \$300 million for projects started prior to 1990. If the acquisition of Great Northern is consummated, the Corporation will reevaluate its capital spending plans.

Georgia-Pacific's operations are subject to extensive regulation by federal, state and local agencies concerning environmental compliance. The Corporation believes that it is in substantial compliance with existing applicable environmental laws and regulations. In the past, the

Corporation has made significant capital expenditures to comply with water, air, solid and hazardous waste regulations and expects to make significant expenditures in the future to maintain such compliance. During 1989, capital expenditures for pollution control facilities and equipment were approximately \$39 million, and the Corporation's 1990 capital expenditure budget includes approximately \$66 million for pollution control facilities and equipment. While the amounts for environmental control equipment and facilities and for compliance in future years will depend on legal and technological developments which cannot be predicted at this time, management anticipates that these costs are likely to increase as environmental regulations become more stringent.

Other

Due to inflation, the current values of property, plant and equipment and timber are higher than the historical costs reported in the financial statements. Accordingly, depreciation and depletion expense would be higher if the costs of such assets were adjusted to a current cost basis. The adverse effects resulting from such an adjustment to income would be offset to some extent by a gain due to the fact that the Corporation's net excess of monetary liabilities over monetary assets would be repaid in less costly dollars than the dollars (with higher purchasing power) originally received for the obligations to be repaid.

Agreement to Acquire Great Northern

On February 20, 1990, the Corporation and Great Northern entered into a definitive merger agreement providing for the Corporation's acquisition of Great Northern. Pursuant to the merger agreement, which has been approved by the boards of directors of both companies, the Corporation increased the price of its existing tender offer (begun on October 31, 1989) for all outstanding common shares of Great Northern to \$65.75 per share in cash. It is estimated that the amount required to fund the tender offer will be approximately \$3.8 billion, excluding transaction costs.

Great Northern produces pulp, paper and container-board and is a major domestic corrugated packaging manufacturer, paper distributor and envelope manufacturer. Great Northern also owns several wood products operations, hydroelectric plants, timber and timberlands.

The tender offer is conditioned upon, among other things, the tender of at least a majority of the common shares outstanding on a fully diluted basis and the Corporation having obtained sufficient financing to enable it to consummate the offer and pay related fees and expenses. Consummation of the merger is also subject to the satisfaction of certain other conditions, including approval, if required by law, of the merger by Great Northern's shareholders.

On October 30, 1989, the Corporation obtained a commitment letter from Bank of America committing it to use its best efforts to arrange one or more syndicates of banks to provide senior bank credit facilities of up to \$5.5 billion (the "Loan Facility"), in two phases.

In the first phase, the Corporation executed agreements on December 28, 1989 with Bank of America and 18 other domestic and international banks to provide senior bank credit facilities of an aggregate of up to \$4.5 billion (the "Tender Facility"). The Tender Facility will be available to finance the tender offer, refinance certain debt of the Corporation and to pay related transaction costs. A commitment fee of 1/2 of 1% per annum is payable on the aggregate unused portion of the commitments. Under the Tender Facility, the Corporation's total consolidated debt will be limited to \$8.3 billion, and there may be no sales of assets out of the ordinary course of business which exceed an aggregate of \$50 million without the consent of the banks. Any borrowings made under these agreements will be secured by substantially all of the Corporation's receivables and inventory. The Tender Facility will terminate on July 31, 1990 unless the tender offer funding occurs earlier, in which case it will terminate six months thereafter.

In the second phase, an aggregate of up to \$5.5 billion will be made available to consummate the merger, to refinance the Tender Facility, to refinance certain portions of the outstanding debt of the Corporation and Great

Northern, to pay anticipated transaction costs and to provide working capital for the Corporation and Great Northern. The terms set forth in the commitment letter provide that, of the \$5.5 billion available upon the consummation of the merger, \$5.1 billion will be available for a term loan and the remainder will be available for a working capital facility.

The term loan will be repayable over eight years, with expected amortization to be \$175 million in the first year, \$450 million in each of the second and third years, \$800 million in the fourth year, \$875 million in the fifth year, \$800 million in each of the sixth and seventh years and \$750 million in the eighth year. Borrowings will bear interest, at the election of the Corporation, at either (i) the higher of the Bank of America Reference Rate plus 1% and the Federal Funds Rate plus 1½% or (ii) the London Interbank Offered Rate plus 2%. The Loan Facility, when used, will replace the Corporation's existing \$1.5 billion credit facility.

As of December 31, 1989, the Corporation had incurred costs of approximately \$43 million related to the proposed acquisition, including approximately \$14 million for 349,900 shares of Great Northern common stock. These costs were included in "Other assets" in the Corporation's balance sheet.

The Corporation believes that free cash flow from operations of the combined entity will be sufficient to

allow for the repayment of the combined debt of the Corporation and Great Northern in accordance with its terms. The Corporation may from time to time determine to prepay certain of such indebtedness; however, no specific plans with respect to such prepayment have been adopted.

1988 Compared with 1987

Georgia-Pacific's consolidated net sales of \$9.5 billion for 1988 were 10.5 percent higher than in 1987. Earnings per share were \$4.76 in 1988 compared with \$4.23 in 1987. Net income was \$467 million in 1988 compared with \$458 million in 1987, which included a \$66 million pre-tax gain (\$41 million after tax) from the liquidation of investments (reported as an "Unusual item" in the Corporation's financial statements and excluded from operating results). Earnings per share were 12.5 percent higher in 1988, primarily due to a 9.4 million reduction in the average number of outstanding shares resulting from the Corporation's stock repurchase program.

The building products segment reported sales of \$6.0 billion in 1988, a 4.8 percent increase from 1987. Operating profits of \$428 million were 19.7 percent lower than \$533 million in 1987. Returns on sales averaged 7.1% and 9.3% in 1988 and 1987, respectively. Average prices for plywood and lumber were lower during 1988. Demand for building products was adversely affected by an 8.2

percent lower level of housing starts. Lower levels of commercial construction resulted in lower gypsum prices and volumes in 1988.

Sales in the pulp and paper segment were \$3.4 billion in 1988, 22.3 percent higher than in 1987. Operating profits in 1988 of \$616 million were 60.8 percent higher than \$383 million in 1987. Returns on sales averaged 17.9% and 13.6% in 1988 and 1987, respectively. Improved results in 1988 were primarily attributable to higher prices in all of our major product lines, particularly for linerboard, corrugated packaging and printing paper. Favorable currency exchange rates contributed to strong demand from the international sector.

The Corporation's interest expense was \$197 million in 1988, compared with \$124 million in 1987. The increase in 1988 was attributable to higher debt levels and higher interest rates as a result of issuing more long-term, fixed-rate debt. The Corporation's cash flow to interest ratio was 4.8 in 1988, compared with 6.8 in 1987.

The provision for income taxes was \$311 million in 1988, based on a 40.0% effective tax rate, compared with \$340 million, based on a 42.6% rate, in 1987. The effective tax rate was lower in 1988 due to a reduction in the statutory Federal tax rate.

Statements of Income

Georgia-Pacific Corporation and Subsidiaries

	Year ended December 31		
<i>(Millions, except per share amounts)</i>	1989	1988	1987
<i>Net sales</i>	\$10,171	\$9,509	\$8,603
Costs and expenses			
Cost of sales	7,621	7,452	6,777
Selling, general and administrative	689	632	583
Depreciation and depletion	514	450	387
Interest	260	197	124
Total costs and expenses	9,084	8,731	7,871
Income before unusual item and income taxes	1,087	778	732
Unusual item	—	—	66
Income before income taxes	1,087	778	798
Provision for income taxes	426	311	340
<i>Net income</i>	\$ 661	\$ 467	\$ 458
<i>Earnings per share</i>	\$ 7.42	\$ 4.76	\$ 4.23
Average number of shares outstanding	89.1	98.1	107.5

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Georgia-Pacific Corporation and Subsidiaries

(Millions)	Year ended December 31		
	1989	1988	1987
Cash provided by (used for) operations			
Net income	\$ 661	\$ 467	\$ 458
Items in net income not affecting cash			
Depreciation	445	392	351
Depletion	69	58	36
Deferred income taxes	53	44	49
Common stock compensation	32	6	2
Gain on sales of assets	(27)	(17)	(4)
Gain on liquidation of investments	—	—	(66)
Other	82	24	44
	1,315	974	870
Cash provided by (used for) working capital			
Receivables	15	(102)	(78)
Inventories	16	(38)	(70)
Other current assets	(7)	20	(10)
Accounts payable and accrued liabilities	19	11	69
	43	(109)	(89)
<i>Cash provided by operations</i>	1,358	865	781
Cash provided by (used for) financing activities			
Repayments of long-term debt	(305)	(884)	(339)
Additions to long-term debt	113	1,534	683
Net increase (decrease) in bank overdrafts	(38)	37	(1)
Net increase (decrease) in commercial paper and other short-term notes	(69)	63	(15)
Common stock repurchased	(468)	(395)	(255)
Cash dividends paid	(130)	(123)	(115)
<i>Cash provided by (used for) financing activities</i>	(897)	232	(42)
Cash provided by (used for) investment activities			
Capital expenditures			
Property, plant and equipment	(447)	(697)	(532)
Timber and timberlands	(46)	(14)	(18)
Total capital expenditures	(493)	(711)	(550)
Acquisition of Brunswick Pulp & Paper	—	(245)	—
Other acquisitions	(6)	(223)	(357)
Proceeds from sales of assets	66	74	11
Proceeds from liquidation of investments	—	—	125
Other	(67)	—	22
<i>Cash (used for) investment activities</i>	(500)	(1,105)	(749)
Decrease in cash	(39)	(8)	(10)
Balance at beginning of year	62	70	80
<i>Balance at end of year</i>	\$ 23	\$ 62	\$ 70

The accompanying notes are an integral part of these financial statements.

Balance Sheets

	December 31	
(Millions, except shares and per share amounts)	1989	1988
<i>Assets</i>		
<i>Current assets</i>		
Cash	\$ 23	\$ 62
Receivables, less allowances of \$30 and \$29	890	905
Inventories		
Raw materials	299	288
Finished goods	644	653
Supplies	102	101
LIFO reserve	(169)	(150)
Total inventories	876	892
Other current assets	40	33
<i>Total current assets</i>	1,829	1,892
<i>Timber and timberlands, net</i>	1,246	1,289
<i>Property, plant and equipment</i>		
Land and improvements	151	152
Buildings	688	669
Machinery and equipment	6,016	5,698
Construction in progress	140	165
Total property, plant and equipment, at cost	6,995	6,684
Accumulated depreciation	(3,304)	(2,961)
<i>Property, plant and equipment, net</i>	3,691	3,723
<i>Other assets</i>	290	211
<i>Total assets</i>	\$ 7,056	\$ 7,115

	December 31	
	1989	1988
<i>Liabilities and shareholders' equity</i>		
<i>Current liabilities</i>		
Bank overdrafts, net	\$ 100	\$ 138
Commercial paper and other short-term notes	79	148
Current portion of long-term debt	31	32
Accounts payable	394	404
Accrued compensation	111	103
Accrued interest	58	58
Other current liabilities	151	130
<i>Total current liabilities</i>	<i>924</i>	<i>1,013</i>
<i>Long-term debt, excluding current portion</i>	<i>2,336</i>	<i>2,514</i>
<i>Deferred income taxes</i>	<i>841</i>	<i>788</i>
<i>Other long-term liabilities</i>	<i>238</i>	<i>165</i>
<i>Shareholders' equity</i>		
Common stock, par value \$.80; authorized 150,000,000 shares; 86,664,000 and 94,967,000 shares issued	69	76
Additional paid-in capital	1,009	1,046
Retained earnings	1,713	1,533
Less—Common stock held in treasury, at cost; 139,000 shares in 1988	—	(4)
Long-term incentive plan deferred compensation	(56)	(11)
Accumulated translation adjustments	(18)	(5)
<i>Total shareholders' equity</i>	<i>2,717</i>	<i>2,635</i>
<i>Total liabilities and shareholders' equity</i>	<i>\$7,056</i>	<i>\$7,115</i>

The accompanying notes are an integral part of these financial statements.

Statements of Shareholders' Equity

Georgia-Pacific Corporation and Subsidiaries

(Millions, except shares) Common stock shares				Additional	Retained	Treasury	Long-term	Accumulated	
Issued	Treasury		Total	Common stock	paid-in capital	earnings	stock	incentive plan deferred compensation	translation adjustments
<i>Balance at</i>									
107,987,000	639,000	<i>December 31, 1986</i>	\$2,452	\$86	\$1,101	\$1,304	\$ (19)	\$ —	\$(20)
		Net income	458	—	—	458	—	—	—
		Cash dividends declared							
		Common stock	(113)	—	—	(113)	—	—	—
		Preferred stock	(2)	—	—	(2)	—	—	—
		Common stock issued							
	(373,000)	Stock option plan	17	—	6	—	11	—	—
16,000		Employee stock purchase plan	—	—	—	—	—	—	—
3,184,000		Conversion of preferred stock	111	3	108	—	—	—	—
	6,182,000	Common stock repurchased	(255)	—	—	—	(255)	—	—
		Other	12	—	—	(2)	—	—	14
<i>Balance at</i>									
111,187,000	6,448,000	<i>December 31, 1987</i>	2,680	89	1,215	1,645	(263)	—	(6)
		Net income	467	—	—	467	—	—	—
		Cash dividends declared	(123)	—	—	(123)	—	—	—
		Common stock issued							
	(53,000)	Stock option plan	3	—	1	—	2	—	—
4,000		Employee stock purchase plan	—	—	—	—	—	—	—
344,000		Long-term incentive plan	2	—	13	—	—	(11)	—
	10,312,000	Common stock repurchased	(395)	—	—	—	(395)	—	—
(16,568,000)	(16,568,000)	Treasury stock retired	—	(13)	(183)	(456)	652	—	—
		Other	1	—	—	—	—	—	1
<i>Balance at</i>									
94,967,000	139,000	<i>December 31, 1988</i>	2,635	76	1,046	1,533	(4)	(11)	(5)
		Net income	661	—	—	661	—	—	—
		Cash dividends declared	(130)	—	—	(130)	—	—	—
		Common stock issued							
201,000	(139,000)	Stock option plan	17	—	13	—	4	—	—
125,000		Employee stock purchase plan	5	—	5	—	—	—	—
1,045,000		Long-term incentive plan	10	1	54	—	—	(45)	—
(9,674,000)		Common stock repurchased	(468)	(8)	(109)	(351)	—	—	—
		Other	(13)	—	—	—	—	—	(13)
<i>Balance at</i>									
86,664,000	—	<i>December 31, 1989</i>	\$2,717	\$69	\$1,009	\$1,713	\$ —	\$(56)	\$(18)

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies
Principles of Consolidation

The consolidated financial statements include the accounts of Georgia-Pacific Corporation and subsidiaries (Corporation). All significant intercompany balances and transactions are eliminated in consolidation.

Earnings Per Share

Earnings per share are computed based on income applicable to common stock (after preferred stock dividends and discount accretion in 1987) and the weighted average number of common shares outstanding (net of restricted stock and treasury shares). The effects of assuming issuance of common shares under long-term incentive, stock option and stock purchase plans and conversion of redeemable preferred stock were insignificant. The number of shares used in the earnings per share computations were 89,106,000 in 1989, 98,127,000 in 1988 and 107,480,000 in 1987.

Inventory Valuation

Inventories are valued at the lower of average cost or market. Inventory includes costs of materials, labor and plant overhead. The last-in, first-out (LIFO) dollar value pool method of inventory valuation is used for the majority of inventories at manufacturing facilities and the Corporation's manufactured inventories located at its building products distribution centers. The lower of average cost or market method is used for all other inventories. Inventories valued using the LIFO method represented approximately 51% and 50%, respectively, of inventories at December 31, 1989 and 1988.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Lease obligations for which the Corporation assumes substantially all the property rights and risks of ownership are capitalized. Replacements of major units of property are capitalized and the replaced properties are retired.

Replacements of minor units of property and repairs and maintenance costs are charged to expense as incurred.

Depreciation expense is computed using the straight-line method with composite rates based upon estimated service lives. The ranges of composite rates for the principal classes are: land improvements — 5% to 7%; buildings — 3% to 5%; and machinery and equipment — 5% to 20%.

Under the composite method of depreciation, no gain or loss is recognized on normal property dispositions because the property cost is credited to the property accounts and charged to the accumulated depreciation accounts and any proceeds are credited to the accumulated depreciation accounts. However, when there are abnormal dispositions of property, the cost and related depreciation amounts are removed from the accounts and any gain or loss is reflected in income.

The Corporation capitalizes interest on projects when construction takes considerable time and entails major expenditures. Such interest is charged to the property, plant and equipment accounts and amortized over the approximate life of the related assets in order to properly match expenses with revenues resulting from the facilities. Interest capitalized, expensed and paid was as follows:

(Millions)	Year ended December 31		
	1989	1988	1987
Total interest costs	\$272	\$222	\$134
Interest capitalized	(12)	(25)	(10)
Interest expense	\$260	\$197	\$124
Interest paid	\$259	\$164	\$116

Timber and Timberlands

The Corporation depletes its investment in timber based on the total fiber that will be available during the estimated growth cycle. Timber carrying costs are expensed as incurred.

Reclassifications

Certain 1988 and 1987 amounts have been reclassified to conform with the 1989 presentation.

Note 2. Industry Segment Information

(Millions)	Year ended December 31					
	1989		1988		1987	
<i>Net sales</i>						
Building products	\$ 6,088	60%	\$6,029	63%	\$5,755	67%
Pulp and paper	4,042	40	3,436	36	2,810	33
Other	41	—	44	1	38	—
<i>Total net sales</i>	\$10,171	100%	\$9,509	100%	\$8,603	100%
<i>Net income</i>						
Building products	\$ 533	36%	\$ 428	41%	\$ 533	58%
Pulp and paper	917	63	616	58	383	41
Other	15		10	1	10	1
<i>Total operating profits</i>	1,465	100%	1,054	100%	926	100%
General corporate	(118)		(79)		(70)	
Interest expense	(260)		(197)		(124)	
Unusual item	—		—		66	
Income taxes	(426)		(311)		(340)	
<i>Net income</i>	\$ 661		\$ 467		\$ 458	
<i>Depreciation and depletion</i>						
Building products	\$ 232	45%	\$ 215	48%	\$ 188	49%
Pulp and paper	272	53	226	50	191	49
Other and general corporate	10	2	9	2	8	2
<i>Total depreciation and depletion</i>	\$ 514	100%	\$ 450	100%	\$ 387	100%
<i>Capital expenditures</i>						
Building products	\$ 135	27%	\$ 216	14%	\$ 301	37%
Pulp and paper	310	62	890	57	397	48
Timber and timberlands	46	9	437	28	108	13
Other and general corporate	8	2	9	1	19	2
<i>Total capital expenditures</i>	\$ 499	100%	\$1,552	100%	\$ 825	100%
<i>Assets</i>						
Building products	\$ 2,176	31%	\$2,226	31%	\$2,134	36%
Pulp and paper	3,358	47	3,394	48	2,561	44
Timber and timberlands	1,246	18	1,289	18	915	16
Other and general corporate	276	4	206	3	260	4
<i>Total assets</i>	\$ 7,056	100%	\$7,115	100%	\$5,870	100%

Manufactured product lines in the building products segment consist primarily of wood panels (plywood, particleboard, hardboard, oriented strand board, etc.), lumber, gypsum products, thermosetting resins and roofing.

Manufactured product lines in the pulp and paper segment consist primarily of printing and writing papers, containers and packaging, paperboard, market pulp and tissue.

Timber and timberlands are managed to supply raw

materials to both the building products and pulp and paper segments. Profits from sales of timber and timberlands are included in the operating profits of the building products segment.

During the years 1987 through 1989, sales to foreign markets represented less than 10% of total sales to unaffiliated customers. No single customer accounted for more than 10% of total sales to unaffiliated customers in any year during that period.

*Note 3. Agreement to Acquire**Great Northern Nekoosa Corporation (Unaudited)*

On February 20, 1990, the Corporation and Great Northern entered into a definitive merger agreement providing for the Corporation's acquisition of Great Northern. Pursuant to the merger agreement, which has been approved by the boards of directors of both companies, the Corporation increased the price of its existing tender offer (begun on October 31, 1989) for all outstanding common shares of Great Northern to \$65.75 per share in cash. It is estimated that the amount required to fund the tender offer will be approximately \$3.8 billion, excluding transaction costs.

Great Northern produces pulp, paper and container-board and is a major domestic corrugated packaging manufacturer, paper distributor and envelope manufacturer. Great Northern also owns several wood products operations, hydroelectric plants, timber and timberlands.

The tender offer is conditioned upon, among other things, the tender of at least a majority of the common shares outstanding on a fully diluted basis and the Corporation having obtained sufficient financing (see Note 5) to enable it to consummate the offer and pay related fees and expenses.

Note 4. Income Taxes

The provision for income taxes is based on pretax financial income which differs from taxable income. Differences generally arise because certain items, such as depreciation, are reflected in different time periods for financial and tax purposes.

The provisions for income taxes and income taxes paid were as follows:

	Year ended December 31		
(Millions)	1989	1988	1987
Federal income taxes			
Current	\$316	\$222	\$249
Deferred	53	44	49
State income taxes	57	45	42
Provision for income taxes	\$426	\$311	\$340
Income taxes paid	\$347	\$295	\$255

The difference between the statutory Federal income tax rate and the Corporation's effective income tax rate is summarized as follows:

	Year ended December 31		
	1989	1988	1987
Statutory Federal income tax rate	34.0%	34.0%	40.0%
State income tax, net of Federal benefit	4.0	4.6	3.6
Goodwill amortization	1.0	—	—
Decrease as a result of timber appreciation taxed at capital gains rate	—	—	(2.0)
Other	.2	1.4	1.0
Effective income tax rate	39.2%	40.0%	42.6%

The Tax Reform Act of 1986 reduced the statutory Federal income tax rate for 1988 and 1989. However, the effect of the lower tax rate was offset to some extent by a higher capital gains tax rate.

The following summarizes the components of the deferred tax provision:

	Year ended December 31		
(Millions)	1989	1988	1987
Excess of tax depreciation over financial depreciation	\$ 74	\$49	\$64
Liability accruals and write-down of certain assets	(18)	—	(6)
Deferred compensation expense	(1)	(2)	(2)
Capitalized interest, net	(2)	3	(4)
Sale of tax benefits	2	2	2
Fees paid to terminate interest rate exchange agreements	(2)	(2)	(2)
Deferred start-up costs, net	(1)	(2)	—
Other	1	(4)	(3)
Deferred tax provision	\$ 53	\$44	\$49

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," which, among other provisions, will change the method of accounting for deferred income taxes. Companies are required to adopt the new standard no later than for fiscal years beginning after December 15, 1991.

It is anticipated that the Corporation will adopt the new standard in 1992 and that prior periods will not be restated. The amount to be recorded will be dependent upon cumulative net timing differences and statutory tax rates existing at that time.

Note 5. Indebtedness

Long-term debt consisted of the following:

(Millions)	December 31	
	1989	1988
Commercial paper and other short-term notes	\$ 223	\$ 389
Notes		
Floating rate, currently 8.62% due 1998	300	300
9¾% due 1992	150	150
10⅞% due 2000, redeemable after May 14, 1995	200	200
12¾% due 1998	51	57
13½% due 1994, redeemable after July 31, 1991	100	100
Debentures		
9¼% due 201 sinking fund payments commencing 1997	150	150
9½% due 2018 redeemable under certain conditions	200	200
9¾% due 2018, sinking fund payments commencing 1999, redeemable under certain conditions	200	200
10¼% due 2018, redeemable under certain conditions	250	250
10½% due 2018, redeemable under certain conditions	250	250
Zero coupon, effective interest rates of 10.15% to 10.30%, maturing in 1989 and 1990	14	28
Discount term, effective interest rate 11.30% due 2015, redeemable after June 14, 1990	125	125
Revenue bonds, average interest rate 6.80% with varying annual payments to 2014	129	132
Other loans, average interest rate 8.33%, varying payments to 2000	43	46
	2,385	2,577
Less: Current portion	31	32
Unamortized discount	18	31
Long-term debt	\$2,336	\$2,514

The scheduled maturities of long-term debt for the next five years are as follows: \$31 million in 1990, \$32 million in 1991, \$163 million in 1992, \$11 million in 1993 and \$109 million in 1994.

Commercial Paper and Other Short-term Notes

As of December 31, 1989, the Corporation had a revolving credit agreement with 27 banks which established unsecured revolving lines of credit totaling \$1.5 billion, \$750 million of which were active. On June 24, 1991, any outstanding balance will be converted to a term loan payable in eight equal semiannual installments over the following four years. Commitment fees during the revolving loan period are 1/8 of 1% of the daily average unused lines of credit. Facility fees are 1/16 of 1% of the daily average amount of the active credit lines. The interest rates associated with this agreement are based, at the Corporation's option, on either the prime rate, the London Interbank Offered Rate (LIBOR), U.S. dollar certificate of deposit rates or competitive bids (fixed or floating rates).

At December 31, 1989, these bank lines of credit were being used to support \$302 million of commercial paper and other short-term borrowings with an average interest rate of 8.50%. At December 31, 1989, \$223 million of commercial paper and other short-term borrowings were classified as long-term debt. Management intends to refinance these borrowings on a long-term basis by either replacing them with long-term debt obligations or by renewing, extending or replacing them with short-term obligations.

Notes

The interest rate on the floating rate notes is equivalent to the six-month LIBOR less 32/100 of 1%. The Corporation has entered into four interest rate exchange agreements which effectively fix the interest rate risk on these floating rate notes at 9.11%.

Two of these agreements provide for payment by the Corporation of interest to the counterparties at an effective fixed rate of 9.53% on notional amounts of \$100 million each until August 1998, in exchange for the counterparties' payments of interest on the same amounts at a floating rate equivalent to the six-month LIBOR. The current floating rate for these agreements is 8.88% and is reset on each semiannual settlement date.

Under the third agreement, the Corporation will pay interest at an effective fixed rate of 9.36% on the notional amount of \$50 million until August 1998, in exchange for floating rate payments, at the six-month LIBOR, with a current rate of 8.88%, also reset semiannually.

Under the fourth agreement, effective August 23, 1989, the Corporation will pay interest at an effective fixed rate of 9.09% on the notional amount of \$50 million until August 1998, in exchange for floating rate payments, at the six-month LIBOR, with a current rate of 8.88%, to be reset semiannually.

Other

On December 28, 1989, the Corporation executed agreements with Bank of America National Trust and Savings Association and 18 other domestic and international banks to provide senior bank credit facilities of an aggregate of up to \$4.5 billion (the "Tender Facility") pursuant to its proposal to acquire Great Northern Nekoosa Corporation. The Tender Facility will be available to finance the tender offer, refinance certain debt of the Corporation and to pay related transaction costs. A commitment fee of 1/2 of 1% per annum is payable on the aggregate unused portion of the commitments.

Under the Tender Facility, the Corporation's total consolidated debt will be limited to \$8.3 billion, and there may be no sales of assets out of the ordinary course of business which exceed an aggregate of \$50 million without the consent of the banks. Any borrowings made under these agreements would be secured by substantially all of the Corporation's receivables and inventory. The Tender Facility will terminate on July 31, 1990 unless the tender offer funding occurs earlier, in which case it will terminate six months thereafter.

In 1986, the Corporation terminated two interest rate exchange agreements which were being used as hedges against anticipated future rollovers of \$102 million of commercial paper borrowings. The Corporation paid \$25 million in termination fees which are being amortized to interest expense over the periods from termination until the original 1991 maturity dates of the terminated agreements.

At December 31, 1989, \$52 million of long-term debt was secured by property and timber with a net book value of \$93 million, including \$68 million net book value (original cost \$151 million) relating to certain manufacturing and pollution control facilities which were financed with the proceeds from revenue bonds issued by local governmental units and guaranteed by the Corporation. The Corporation leases such facilities from the governmental units and pays all costs incidental to ownership of the properties.

At December 31, 1989, the Corporation had registered for sale up to \$500 million of debt securities under shelf registration statements filed with the Securities and Exchange Commission.

*Note 6. Retirement Plans**Defined Benefit Pension Plans*

Most of the Corporation's employees participate in non-contributory defined benefit pension plans. These include plans which are administered solely by the Corporation, plans which are administered jointly by the Corporation and labor unions, and union-administered multiemployer plans. The Corporation's funding policy for solely administered plans is based on actuarial calculations and the applicable requirements of Federal law. Contributions to jointly administered and multiemployer plans are

generally based on negotiated labor contracts.

Benefits under the majority of plans for hourly employees (including multiemployer plans) are primarily related to years of service. The Corporation has separate plans for salaried employees and officers under which benefits are primarily related to earnings and years of service. The officers' plan is not funded and is nonqualified for Federal income tax purposes.

The table below sets forth the funded status of the solely and jointly administered plans and the amounts recognized in the accompanying Balance Sheets.

	Year ended December 31, 1989		Year ended December 31, 1988	
	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets
<i>(Millions)</i>				
Accumulated benefit obligation at November 30				
Vested portion	\$ 630	\$ 29	\$ 393	\$ 21
Nonvested portion	27	1	35	2
	657	30	428	23
Effect of projected future compensation levels	4	11	30	7
Projected benefit obligation at November 30	661	41	458	30
Plan assets at fair value at November 30	891	8	635	5
Plan assets in excess of (less than) projected benefit obligation	230	(33)	177	(25)
Contributions made in December	8	—	—	1
Unrecognized net (gain) loss	(108)	9	(54)	5
Unrecognized prior service cost	32	3	28	2
Unrecognized net (asset) obligation from initial application of SFAS 87	(90)	—	(103)	1
Adjustment required to recognize minimum liability	—	(2)	—	(2)
Prepaid (accrued) pension cost at December 31	\$ 72	\$ (23)	\$ 48	\$ (18)

The discount rates and rates of increase in future compensation levels used in determining the projected benefit obligation were 8.5% and 6.0% at November 30, 1989 and 9.0% and 6.0% at November 30, 1988. Plan assets consist principally of common stocks, bonds, mortgage securities, interests in limited partnerships, guaranteed investment contracts, cash equivalents and real estate.

At December 31, 1989 and 1988, respectively, \$72 million and \$48 million of noncurrent prepaid pension cost was included in other assets. The accrued pension cost of \$23 million and \$18 million at December 31, 1989 and 1988, respectively, was included in other long-term liabilities.

The expected long-term rate of return on plan assets used in determining net periodic pension cost was 11.0% in 1989 and was increased to 11.0% in 1988 from 8.5% in 1987. The increase reduced 1988 expense by \$13 million.

Net periodic pension cost for solely and jointly administered pension plans included the following:

(Millions)	Year ended December 31		
	1989	1988	1987
Service cost of benefits earned	\$ 55	\$ 31	\$ 30
Interest cost on projected benefit obligation	44	37	32
Actual return on plan assets	(132)	(90)	(10)
Net amortization and deferral	39	22	(43)
	6	—	9
Contributions to multiemployer pension plans	2	3	4
Net periodic pension cost	\$ 8	\$ 3	\$ 13

Defined Contribution Plan

The Corporation sponsors a Savings and Capital Growth Plan (Savings Plan) to provide eligible salaried employees with additional income upon retirement. The Corporation makes annual contributions to the Savings Plan equal to 3% of the first \$100,000 of each participant's annual compensation, as defined. The Corporation also matches a portion of voluntary before-tax contributions up to a maximum matching contribution of 3.75% of a participant's compensation. At December 31, 1989, approximately 11,700 employees were eligible to participate in the Savings Plan, which had net assets of approximately \$226 million. Savings Plan expense was \$24 million in 1989, \$21 million in 1988 and \$16 million in 1987.

Retiree Health Care and Life Insurance Benefits

The Corporation provides certain health care and life insurance benefits to eligible retired employees. Effective January 1, 1988, the Corporation changed its accounting for these benefits to recognize costs as expense when claims are paid. The Corporation previously fully accrued the actuarially determined cost of benefits for retired employees and accrued the actuarially determined cost of benefits for active employees over their estimated service periods. The effect of this change on the accompanying financial statements was not material.

Note 7. Common Stock

At December 31, 1989, the following authorized shares of the Corporation's common stock were reserved for issue:

1988 Long-Term Incentive Plan	1,611,000
1989 Employee Stock Purchase Plan	940,000
1984 Employee Stock Option Plan	2,292,000
Common stock reserved	<u>4,843,000</u>

Long-Term Incentive Plan

The 1988 Long-Term Incentive Plan (Incentive Plan) initially reserved 3,000,000 shares for issue with 1,835,000 shares allocated to the plan participants. Specified portions of the shares allocated under this plan are issued as restricted stock, at no cost to the employee, based on increases in the average market value of the Corporation's common stock. At the time restricted shares are issued, the market value of the stock is added to common stock and additional paid-in capital and an equal amount is deducted from shareholders' equity (long-term incentive plan deferred compensation). Long-term incentive plan deferred compensation is amortized over the vesting (restriction) period, generally five years, with adjustments made quarterly for market price fluctuations. The Corporation recognized long-term incentive plan compensation expense of \$14 million in 1989 and \$3 million in 1988. Additional information relating to the Incentive Plan is as follows:

	Year ended December 31	
	1989	1988
Shares allocated and unissued at January 1	1,401,000	—
Shares allocated	290,000	1,835,000
Shares cancelled	(110,000)	(90,000)
Restricted shares issued, net of cancellations	(1,045,000)	(344,000)
Shares allocated and unissued at December 31	536,000	1,401,000
Shares available for allocation at December 31	1,075,000	1,255,000
Total shares reserved	<u>1,611,000</u>	<u>2,656,000</u>

Employee Stock Purchase Plan

At December 31, 1989, the 1989 Employee Stock Purchase Plan (Purchase Plan) reserved for issue 940,000 shares of common stock at a subscription price of \$34.90. Subscribers have the option to receive their payments plus interest at the rate of 8% per annum in lieu of stock. Additional shares can no longer be subscribed under the Purchase Plan, which expires on April 30, 1991. Approximately 6,200 subscribers remained in the Purchase Plan at December 31, 1989.

During 1989, the Corporation issued 114,000 shares of common stock under the 1987 Employee Stock Purchase Plan (which expired on March 31, 1989) and 11,000 shares under the 1989 Employee Stock Purchase Plan.

Employee Stock Option Plan

The 1984 Employee Stock Option Plan (Option Plan) provides for the granting of stock options to certain officers and employees. Holders of stock options may be granted cash awards, payable upon exercise of an option, of an amount not to exceed the amount by which the market value of the common stock, as defined, exceeds the option price. In addition, holders may be granted rights to surrender all or part of the related stock option in exchange for common stock with a fair market value equal to the amount by which the market value of the common stock, as defined, exceeds the option price.

Compensation resulting from stock options and cash awards is initially measured at the grant date based on the market value of the common stock, with adjustments made quarterly for market price fluctuations. The Corporation recognized stock options compensation expense of \$25 million in 1989, \$5 million in 1988 and \$11 million in 1987.

Additional information relating to the Option Plan is as follows:

	Year ended December 31	
	1989	1988
Options outstanding at January 1	1,370,000	1,239,000
Granted	358,000	338,000
Exercised/surrendered	(860,000)	(141,000)
Cancelled	(36,000)	(66,000)
Options outstanding at December 31	832,000	1,370,000
Options available for grant at December 31	1,460,000	1,781,000
Total reserved shares	2,292,000	3,151,000
Options exercisable at December 31	488,000	1,042,000
Option prices per share:		
Granted	\$41	\$34
Exercised/surrendered	\$21-\$46	\$21-\$26
Cancelled	\$21-\$46	\$26-\$46

Shareholder Rights Plan

On July 31, 1989, the Corporation adopted a Shareholder Rights Plan. Preferred stock purchase rights were distributed, as a dividend at the rate of one Right for each share of common stock held, to shareholders of record as of the close of business on August 10, 1989 and expire after 10 years. Each Right entitles the holder to buy, at an exercise price of \$175, one one-hundredth of a newly issued share of Series A Junior Preferred Stock, of which 5,000,000 shares were reserved for issue at December 31, 1989. At December 31, 1989, 25,000,000 shares of no par value Junior Preferred Stock were authorized. Due to the nature of its dividend, liquidation and voting rights, the economic value of one one-hundredth of a share of Junior Preferred Stock that may be acquired upon the exercise of each Right should approximate the economic value of one share of common stock. The Rights are exercisable only if a person or group acquires 15 percent or more of the Corporation's common stock or announces a tender offer for 30 percent or more of the common stock.

If a person becomes the beneficial owner of 15 percent or more of the Corporation's outstanding common stock, or if a holder of 15 percent or more of the Corporation's stock engages in certain self-dealing transactions or a merger transaction in which the Corporation is the surviving corporation and its common stock remains outstanding, then each Right not owned by such party will entitle its holder to purchase, at the then-current exercise price, shares of the Corporation's Series A Junior Preferred Stock with a market value of twice the exercise price.

In addition, if after any person acquires 15 percent or more of the Corporation's outstanding common stock, the Corporation is involved in a merger or other business combination transaction with another person after which its common stock does not remain outstanding, or the Corporation sells 50 percent or more of its assets or earning power, each Right will entitle its holder to purchase, at the then-current exercise price, shares of the other party's common stock with a market value of twice the exercise price.

Other

The Georgia Business Corporation Code, revised effective July 1, 1989, eliminates restrictions on the payment of cash dividends and the redemption of shares out of the Corporation's common stock or additional paid-in capital accounts.

The shares and prices relating to the Incentive Plan, the Purchase Plan, the Option Plan and the Shareholder Rights Plan are subject to adjustment for certain changes in the capital structure, including common stock splits and stock dividends.

Note 8. Redeemable Preferred Stock

(Millions)	Adjustable rate convertible preferred stock			
	Series A	Series B	Series C	Total
Balance at December 31, 1986	\$ 61	\$ 20	\$ 32	\$ 113
Shares converted to common stock	(61)	(18)	(32)	(111)
Shares redeemed	(1)	(2)	—	(3)
Shares repurchased	—	—	(1)	(1)
Amortization of the excess of involuntary liquidating value over fair value at issue date	1	—	1	2
Balance at December 31, 1987	\$ —	\$ —	\$ —	\$ —

The number of shares of adjustable rate convertible preferred stock (redeemable preferred stock) issued and outstanding at December 31, 1986 were 1,656,000 of Series A, 573,000 of Series B and 1,049,000 of Series C. The redeemable preferred stock was recorded at fair market value on the date of issue. The excess of involuntary liquidating value over such fair market value was amortized by a charge to retained earnings and corresponding credit to redeemable preferred stock. Each share of redeemable preferred stock received cumulative quarterly cash dividends at the annual rate of \$2.24.

In March 1987, the Corporation called for redemption on April 15, 1987 all of its outstanding redeemable preferred stock. Approximately 1,624,000 Series A, 522,000 Series B and 1,038,000 Series C shares were converted to shares of the Corporation's common stock on a one-for-one basis. The remaining shares were redeemed at \$39.00 per share plus accumulated dividends.

Note 9. Acquisition of Brunswick Pulp & Paper

On August 23, 1988, the Corporation acquired all of the outstanding capital stock of Brunswick Pulp & Paper Company and related timber assets. The Corporation paid \$245 million in cash and delivered \$300 million principal amount of 10-year notes to the sellers. The assets acquired and liabilities assumed at the acquisition date were as follows:

(Millions)	
Receivables	\$ 34
Inventories	24
Other current assets	2
Timber and timber lands	230
Property, plant and equipment	388
Other assets	33
Total assets	711
Accounts payable and accrued liabilities	27
Commercial paper and short-term debt	37
Long-term debt	100
Other long-term liabilities	2
Total liabilities	166
Net assets acquired	\$545

The acquired assets included a softwood pulp and paper-board mill, three pine sawmills and related timber assets. The acquisition was recorded using the purchase method. The purchase price exceeded the fair value of net assets acquired by \$18 million. The excess is included in other assets and is being amortized over 10 years. The results of Brunswick Pulp & Paper's operations have been included in the accompanying Statements of Income from the date of acquisition. Had the operations been acquired as of the beginning of 1987 or 1988, the Corporation's net sales and income for those years would not have been materially affected.

Note 10. Unusual Item

In 1987, the Corporation received cash proceeds of \$82 million and recorded a pre-tax gain of \$66 million from the liquidation of its remaining \$16 million investment in preferred stock and warrants of Georgia Gulf Corporation, purchaser of the Corporation's commodity chemicals subsidiary in 1984.

Note 11. Commitments and Contingencies

The Corporation is a party to various legal proceedings generally incidental to its business. Although the ultimate disposition of these proceedings is not presently determinable, management does not believe that adverse determinations in any or all of such proceedings would have a material adverse effect upon the financial condition of the Corporation.

The Corporation is self-insured for general liability claims up to \$25 million per claim.

The Corporation is a 50% partner in a joint venture

(GA-MET) with Metropolitan Life Insurance Company (Metropolitan). GA-MET owns and operates the Corporation's office headquarters complex in Atlanta, Georgia. The Corporation accounts for its investment in GA-MET under the equity method.

During 1986, GA-MET borrowed \$170 million from Metropolitan for the primary purpose of retiring debt incurred from the acquisition and construction of the Atlanta headquarters complex. The note bears interest at 9½% and requires monthly payments of principal and interest with a final installment due in 2011. The note is secured by the land and building of the Atlanta headquarters complex. In the event of foreclosure, each partner has severally guaranteed payment of one-half of any shortfall of collateral value to the outstanding secured indebtedness. Based on the present market conditions and building occupancy, the likelihood of any obligation to the Corporation with respect to this guarantee is considered remote.

Note 12. Unaudited Selected Quarterly Financial Data

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
(Millions, except per share amounts)	1989	1988	1989	1988	1989	1988	1989	1988
Net sales	\$2,447	\$2,115	\$2,640	\$2,418	\$2,646	\$2,409	\$2,438	\$2,567
Gross profit (net sales minus cost of sales)	622	461	660	501	667	520	601	575
Net income	154	106	172	118	178	114	157	129
Earnings per share	1.65	1.02	1.90	1.21	2.03	1.19	1.84	1.36
Dividends declared per common share	.35	.30	.35	.30	.35	.30	.40	.35
Price range of common stock								
High	43.13	40.00	47.50	42.63	62.00	42.88	61.50	37.88
Low	36.63	30.75	42.13	36.75	42.88	35.25	46.13	33.25

The results of Brunswick Pulp & Paper Company, acquired in the third quarter of 1988, have been included from the date of acquisition (Note 9).

To the Shareholders and the Board of Directors of Georgia-Pacific Corporation:

We have audited the accompanying balance sheets of Georgia-Pacific Corporation (a Georgia corporation) and subsidiaries as of December 31, 1989 and 1988 and the related statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Georgia-Pacific Corporation and subsidiaries as of December 31, 1989 and 1988 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

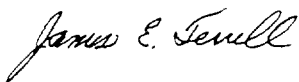
Arthur Andersen & Co.

Atlanta, Georgia
February 12, 1990

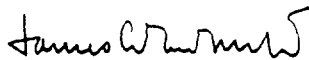
Management of Georgia-Pacific Corporation is responsible for the accurate and objective preparation of the consolidated financial statements and the estimates and judgments upon which certain amounts in the financial statements are based. Management is also responsible for preparing the other financial information included in this annual report. In our opinion, the financial statements on the preceding pages have been prepared in conformity with generally accepted accounting principles and other financial information in this annual report is consistent with the financial statements.

Management is also responsible for establishing and maintaining an adequate internal control system which encompasses policies, procedures and controls directly related to, and designed to provide reasonable assurance as to the integrity and reliability of the financial reporting process and the financial statements generated therefrom. An independent evaluation of the system is performed by the Corporation's qualified internal audit staff in order to confirm that the system is adequate and operating effectively. The Corporation's independent public accountants also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered any significant recommendations regarding the internal control system which have been brought to its attention by the internal audit staff or independent public accountants and has taken the steps it deems appropriate to maintain a cost-effective internal control system. Management believes that as of December 31, 1989, the internal control system is adequate and effective in all material respects.

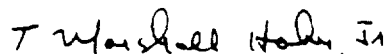
The Audit Committee of the Board of Directors, consisting of five outside directors, provides oversight in the areas of financial reporting and internal control and approves fees paid to the independent auditors for both audit and non-audit services. The Corporation's internal auditors and independent public accountants meet regularly with the Audit Committee to discuss financial reporting and internal control issues and have full and free access to the Audit Committee.



James E. Terrell
Controller and
Chief Accounting Officer



James C. Van Meter
Executive Vice President-Finance
and Chief Financial Officer



T. Marshall Hahn, Jr.
Chairman and
Chief Executive Officer

February 12, 1990

Ten-year Selected Financial Data – Operations

Cash dividends to earnings

Cash dividends declared (common and preferred) divided by net income.

Cash flow to interest

Cash provided by continuing operations plus interest expense divided by total interest cost (interest expense plus capitalized interest).

Earnings to interest

Income from continuing operations before income taxes and extraordinary items plus interest expense divided by total interest cost (interest expense plus capitalized interest).

Effective income tax rate

Provision for income taxes divided by income from continuing operations before income taxes and extraordinary items.

(Dollar amounts, except per share, and shares are in millions)

Operations

Net sales

Costs and expenses

Cost of sales*

Selling, general and administrative

Depreciation and depletion

Interest

Total costs and expenses

Income from continuing operations before unusual items, income taxes and extraordinary items

Unusual items

Provision for income taxes

Income from continuing operations before extraordinary items

Income (loss) from discontinued operations

Extraordinary items

Net income

Cash provided by continuing operations

Other statistical data

Per common share

Income from continuing operations before extraordinary items

Income (loss) from discontinued operations

Extraordinary items

Net income

Dividends declared

Average shares of common stock outstanding

Shares of common stock outstanding at year end

Cash dividends to earnings

Earnings to interest

Cash flow to interest

Effective income tax rate

*Includes provision for restructuring operations of \$30 million in 1982 and \$135 million in 1983.

**Not available.

Year ended December 31

1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
\$10,171	\$9,509	\$8,603	\$7,223	\$6,716	\$6,682	\$6,040	\$5,003	\$4,914	\$4,554
7,621	7,452	6,777	5,783	5,553	5,441	5,113	4,236	4,131	3,737
689	632	583	511	431	426	374	359	304	282
514	450	387	339	310	282	289	275	228	223
260	197	124	138	132	156	157	186	125	79
9,084	8,731	7,871	6,771	6,426	6,305	5,933	5,056	4,788	4,321
1,087	778	732	452	290	377	107	(53)	126	233
—	—	66	33	19	19	—	79	—	—
426	311	340	189	102	143	32	6	38	72
661	467	458	296	207	253	75	20	88	161
—	—	—	—	(30)	(134)	30	32	72	83
—	—	—	—	10	—	—	101	—	—
\$ 661	\$ 467	\$ 458	\$ 296	\$ 187	\$ 119	\$ 105	\$ 153	\$ 160	\$ 244
\$ 1,358	\$ 865	\$ 781	\$ 575	\$ 771	\$ 509	\$ 460	\$ 367	\$ 276	\$ **
\$ 7.42	\$ 4.76	\$ 4.23	\$ 2.70	\$ 1.84	\$ 2.28	\$.53	\$ (.01)	\$.69	\$ 1.48
—	—	—	—	(.29)	(1.31)	.30	.32	.73	.84
—	—	—	—	.10	—	—	1.01	—	—
\$ 7.42	\$ 4.76	\$ 4.23	\$ 2.70	\$ 1.65	\$.97	\$.83	\$ 1.32	\$ 1.42	\$ 2.32
\$ 1.45	\$ 1.25	\$ 1.05	\$.85	\$.80	\$.70	\$.60	\$ 1.05	\$ 1.20	\$ 1.20
89.1	98.1	107.5	104.1	103.0	102.2	101.5	99.9	98.9	98.7
86.7	94.8	104.7	107.3	103.2	102.5	101.5	101.3	98.9	98.8
19.7%	26.3%	25.1%	32.8%	49.7%	71.4%	72.4%	77.8%	82.5%	53.3%
5.0	4.4	6.9	4.2	2.7	3.3	1.6	1.0	**	**
5.9	4.8	6.8	4.9	5.6	4.0	3.8	2.7	**	**
39.2%	40.0%	42.6%	39.0%	33.0%	36.1%	29.9%	23.1%	30.2%	30.9%

Ten-year Selected Financial Data — Financial Position, End of Year

Book value per common share

Shareholders' equity minus the unamortized discount on redeemable preferred stock, divided by shares of common stock outstanding as of the end of the year.

Current ratio

Current assets divided by current liabilities as of the end of the year.

Return on capital employed

Income from continuing operations before extraordinary items plus interest expense (net of taxes) and deferred income tax expense, divided by capital employed as of the beginning of the year. Capital employed is calculated as total assets, excluding net assets of discontinued operations, minus noninterest-bearing current liabilities.

Return on equity

Income from continuing operations before extraordinary items divided by shareholders' equity as of the beginning of the year.

Total debt to capital

Total debt divided by the sum of total debt, deferred income taxes, other long-term liabilities, redeemable preferred stock and shareholders' equity as of the end of the year.

(Dollar amounts, except per share, and shares in millions)

Financial position, end of year

Current assets	
Timber and timberlands, net	
Property, plant and equipment, net	
Net assets of discontinued operations	
Other assets	
Total assets	
Current liabilities	
Long-term debt	
Deferred income taxes	
Other long-term liabilities	
Redeemable preferred stock	
Shareholders' equity	
Working capital	

Other statistical data

Capital expenditures (including acquisitions)	
Capital expenditures (excluding acquisitions)	
Per common share	
Market price: High	
Low	
Year-end	
Book value	
Return on capital employed	
Return on equity	
Total debt to capital	
Current ratio	

*Not available.

Year ended December 31

1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
\$1,829	\$1,892	\$1,729	\$1,420	\$1,291	\$1,406	\$1,268	\$1,176	\$1,175	\$1,051
1,246	1,289	915	844	804	840	753	748	752	682
3,691	3,723	3,048	2,691	2,606	2,270	1,989	2,214	2,200	1,959
—	—	—	—	11	158	653	651	626	579
290	211	178	159	154	111	69	130	93	46
7,056	7,115	5,870	5,114	4,866	4,785	4,732	4,919	4,846	4,317
924	1,013	996	837	631	640	612	716	846	710
2,336	2,514	1,298	893	1,257	1,383	1,453	1,618	1,487	1,227
841	788	744	695	606	503	413	365	384	311
238	165	152	124	69	34	26	22	—	—
—	—	—	113	156	190	215	209	203	169
\$2,717	\$2,635	\$2,680	\$2,452	\$2,147	\$2,035	\$2,013	\$1,989	\$1,926	\$1,900
\$ 905	\$ 879	\$ 733	\$ 583	\$ 660	\$ 766	\$ 656	\$ 460	\$ 329	\$ 341
\$ 499	\$1,552	\$ 825	\$ 482	\$ 642	\$ 710	\$ 188	\$ 207	\$ 609	\$ 495
493	711	550	444	624	403	184	203	472	495
62.00	42.88	52.75	41.25	27.38	25.75	31.88	27.25	32.38	34.88
36.63	30.75	22.75	24.75	20.50	18.00	22.38	13.25	17.75	21.50
48.50	36.88	34.50	37.00	26.50	25.00	24.75	26.25	20.13	25.00
31.35	27.79	25.59	22.70	20.59	19.58	19.48	19.22	18.99	18.93
13.6%	12.1%	12.6%	10.4%	8.7%	11.7%	4.2%	2.5%	6.8%	*
25.1%	17.4%	18.7%	13.8%	10.2%	12.6%	3.8%	1.0%	4.6%	9.0%
40.1%	44.1%	31.4%	26.3%	32.0%	35.7%	37.4%	42.1%	43.3%	39.3%
2.0	1.9	1.7	1.7	2.0	2.2	2.1	1.6	1.4	1.5

Sales and Operating Profits by Industry Segment

(Millions)	1989		1988		1987	
<i>Net sales</i>						
Building products						
Wood panels	\$ 2,488	24%	\$2,442	26%	\$2,355	28%
Lumber	2,109	21	2,134	22	2,002	23
Gypsum products	299	3	305	3	361	4
Thermosetting resins	253	3	241	2	189	2
Roofing	194	2	189	2	194	2
Other	745	7	718	8	654	8
	6,088	60	6,029	63	5,755	67
Pulp and paper						
Printing and writing papers	983	10	796	8	621	7
Containers and packaging	839	8	849	9	743	9
Paperboard	739	7	584	6	503	6
Market pulp	728	7	533	6	314	4
Tissue	679	7	590	6	539	6
Other	74	1	84	1	90	1
	4,042	40	3,436	36	2,810	33
Other operations	41	—	44	1	38	—
Continuing operations	\$10,171	100%	\$9,509	100%	\$8,603	100%
<i>Operating profits</i>						
Building products	\$ 533	36%	\$ 428	41%	\$ 533	58%
Pulp and paper	917	63	616	58	383	41
Other operations	15	1	10	1	10	1
Continuing operations	\$ 1,465	100%	\$1,054	100%	\$ 926	100%

Operating profits are before income taxes, interest and general corporate expenses, unusual items and extraordinary items.

Year ended December 31

1986		1985		1984		1983		1982		1981		1980	
\$1,864	26%	\$1,666	25%	\$1,637	25%	\$1,560	26%	\$1,217	24%	\$1,230	25%	\$1,154	25%
1,676	23	1,434	21	1,461	22	1,424	24	1,003	20	1,017	20	993	22
375	5	377	6	360	5	269	4	183	4	193	4	196	4
155	2	173	3	186	3	162	3	136	3	139	3	112	3
230	3	260	4	268	4	222	4	197	4	144	3	129	3
553	8	560	8	540	8	506	8	450	9	438	9	415	9
4,853	67	4,470	67	4,452	67	4,143	69	3,186	64	3,161	64	2,999	66
461	6	356	5	445	7	450	7	437	9	375	7	267	6
619	9	627	9	514	7	513	9	478	10	429	9	390	8
410	6	410	6	395	6	134	2	127	2	140	3	129	3
221	3	157	2	225	3	191	3	187	4	248	5	245	5
502	7	514	8	507	8	449	7	429	8	388	8	369	8
68	1	70	1	25	—	31	1	29	1	37	1	31	1
2,281	32	2,134	31	2,111	31	1,768	29	1,687	34	1,617	33	1,431	31
89	1	112	2	119	2	129	2	130	2	136	3	124	3
\$7,223	100%	\$6,716	100%	\$6,682	100%	\$6,040	100%	\$5,003	100%	\$4,914	100%	\$4,554	100%
\$ 500	73%	\$ 391	86%	\$ 379	63%	\$ 277	92%	\$ 128	66%	\$ 141	48%	\$ 176	50%
146	22	29	6	202	34	13	4	41	21	118	41	146	42
35	5	35	8	20	3	13	4	25	13	33	11	27	8
\$ 681	100%	\$ 455	100%	\$ 601	100%	\$ 303	100%	\$ 194	100%	\$ 292	100%	\$ 349	100%

Operating Statistics

	As of December 31, 1989	
	Number of Facilities	Rated Annual Capacity
<i>Building products</i>		
Wood panels		
Softwood plywood (3/8") (m.sq.ft.)	18	5,282
Hardwood plywood (sm) (m.sq.ft.)	2	410
Hardboard (1/8") (m.sq.ft.)	8	1,364
Particleboard (3/4") (m.sq.ft.)	8	1,141
Oriented strand board (3/8") (m.sq.ft.)	4	952
Panelboard (1/8") (m.sq.ft.)	1	300
Softboard (1/2") (m.sq.ft.)	1	250
Fiberboard (3/4") (m.sq.ft.)	1	100
Lumber (m.bd.ft.)	45	2,509
Moulding (m.bd. ft.)	3	36
Gypsum board (m.sq.ft.)	10	3,063
Roofing—shingle (t.squares)	5	9,587
Formaldehyde (m.lbs.)	11	1,660
Thermosetting resins (m.lbs.)	16	2,650
Other	19	
Total building products	152	
Distribution centers	144	
<i>Pulp and paper</i>		
Pulp (t.tons)		5,259
Paper (t.tons)		
Linerboard and medium		1,562
Printing and writing papers		1,284
Other paperboard		618
Tissue and sanitary papers		547
Coarse kraft paper		355
Total paper	28*	4,366
Corrugated packaging (m.sq.ft.)	31	20,165
Tissue products (t.tons)	6	592
Other	16	
Total pulp and paper	81	
<i>Other operations</i>	3	
<i>Resources (as of December 31)</i>		
North American timberlands (t.acres)		
Owned in fee		
Controlled		

*Total for pulp/paper

Production									
1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
5,341	5,545	5,050	4,706	4,414	4,443	4,430	3,831	3,653	3,084
420	456	357	335	311	343	442	444	405	392
1,203	1,198	1,159	349	368	361	346	220	360	445
1,062	1,004	695	425	410	381	400	303	423	415
873	793	652	525	173	96	51	—	—	—
318	330	295	248	290	311	299	301	443	439
242	238	231	241	239	243	241	226	212	232
74	62	59	75	76	69	77	63	55	—
2,426	2,324	1,956	1,784	1,684	1,650	1,603	1,406	1,418	1,518
29	30	30	8	—	—	—	—	—	—
2,403	2,406	2,620	2,473	2,495	2,412	2,242	1,681	1,835	1,835
8,106	7,155	6,976	7,361	7,789	7,539	5,973	5,363	3,704	2,028
1,454	1,394	1,309	1,233	1,188	1,169	1,081	966	1,039	981
2,372	2,362	2,136	1,805	1,650	1,527	1,451	1,146	1,156	1,008
4,915	4,218	3,876	3,591	3,258	3,297	2,976	2,648	2,725	2,668
1,419	1,297	1,318	1,146	976	740	452	410	412	396
1,161	970	868	731	552	574	518	475	433	348
555	458	393	368	368	374	377	321	361	345
519	511	490	496	476	486	487	456	419	420
350	356	348	394	452	529	541	500	487	508
4,004	3,592	3,417	3,135	2,824	2,703	2,375	2,162	2,112	2,017
16,640	16,577	15,750	14,572	13,703	11,880	8,427	7,680	6,291	5,742
467	462	446	437	432	422	422	393	368	360
5,430	5,480	4,910	4,700	4,760	4,920	4,630	4,630	4,620	4,500
670	1,010	670	530	480	480	530	510	510	600

sm = surface measure basis

t = thousands

m = millions

T. Marshall Hahn, Jr.
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Vice Chairman

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President and Chief Operating Officer

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Executive Vice President-Pulp and Paper

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Executive Vice President-Building Products

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Executive Vice President-Finance and Chief Financial Officer

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Donald L. Glass
Senior Vice President-Building Products Manufacturing

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Senior Vice President-Distribution and Specialty Operations

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Senior Vice President-Pulp and Paper Manufacturing

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Senior Vice President-Human Resources and Administration

Carroll T. Tolar
Senior Vice President-Engineering

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Group Vice President-Containerboard and Packaging

Willie L. Duke
Group Vice President-Wood Products Manufacturing

Maurice W. Kring
Group Vice President-Packaged Products

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Vice President-Distribution Division Southwest Region

Joseph J. Armetta
Vice President-Distribution Division Midwest Region

David S. Dimling
Vice President-Printing Paper Division

Duncan B. Facey
Vice President-Distribution Division Northeast Region

David R. Fleiner
Vice President-Wood Products Sales

Clifford T. Howlett, Jr.
Vice President-Government Affairs

Stephen K. Jackson
Vice President-Distribution Division Marketing and Advertising

Clint M. Kennedy
Vice President-Pulp, Kraft Paper and Containerboard Sales

John E. Masaschi
Vice President-Industrial Wood Products Division

John F. McGovern
Vice President-Finance

Dennis D. Melstrom
Vice President-Packaging Division

Dewey L. Mobley
Vice President-Western Wood Products Manufacturing Division

William B. Nagle, Jr.
Vice President-Mid-Continent Wood Products Manufacturing Division

Kelly E. Powell, Jr.
Vice President-Distribution Division Western Region

John F. Rasor
Vice President-Eastern Wood Products Manufacturing Division

William D. Rose
Vice President-Millwork and Specialties

Robert A. Starling
Vice President-Distribution Division Southeast Region

James R. Taylor
Vice President-Chemical Division

Douglas A. Thom
Vice President-Containerboard Manufacturing

Michael A. Vidan
Vice President-Gypsum and Roofing

Michael B. Wilson
Vice President-Sales and Marketing Consumer and Commercial Paper Products

Wayne I. Tamblyn
Treasurer

James E. Terrell
Controller

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Chairman and Chief Executive Officer;
Atlanta, Georgia

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Vice Chairman; Atlanta, Georgia

Willard S. Boothby, Jr.^{1 3}
Managing Director, PaineWebber Incorporated;
Investment Bankers; New York, New York

Robert Carswell^{2 4}
Senior Partner, Shearman & Sterling; Attorneys;
New York, New York

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Chairman of the Executive Committee, Norfolk
Southern Corporation; Norfolk, Virginia

Harvey C. Fruehauf, Jr.^{1 4}
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Chairman and Chief Executive, The BOC Group plc;
Windlesham, England

Francis Jungers^{1 2}
Private business consultant and investor;
Portland, Oregon

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President and Chief Operating Officer (retired), General
Motors Corporation; Detroit, Michigan

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Chairman of the Board and Senior Shareholder, McNair
Law Firm, P.A.; Columbia, South Carolina

Norma Pace^{4 5}
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New York, New York

Robert A. Schumacher^{4 5}
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Darien, Connecticut

James B. Williams^{4 5}
Vice Chairman, SunTrust Banks, Inc.; Atlanta, Georgia

¹ Executive Committee

² Audit Committee

³ Stock Option Plan and Management Compensation Committee

⁴ Finance Committee

⁵ Nominating Committee

Corporate Headquarters

Georgia-Pacific Center, 133 Peachtree Street, N.E.,
Atlanta, Georgia 30303

Stock Exchanges and Symbols

Georgia-Pacific Corporation Common Stock is listed on the New York Stock Exchange ("NYSE") and on the Tokyo Stock Exchange. The Corporation's NYSE symbol is "GP"; however, the stock is quoted as "GaPac" in stock table listings in newspapers. G-P options are traded on the Philadelphia Stock Exchange.

Transfer Agent and Registrar

First Chicago Trust Company of New York
Post Office Box 3981
Church Street Station
New York, New York 10008-3981

Shareholder Information

For shareholder information, contact the Transfer Agent and Registrar, First Chicago Trust Company of New York, at Post Office Box 3981, Church Street Station, New York, New York 10008-3981, or telephone (212) 791-6422.

Registered G-P shareholders are eligible to participate in the G-P Dividend Reinvestment Plan. For information on the Plan, contact the Plan agent, First Chicago Trust Company of New York, Post Office Box 3506, Church Street Station, New York, New York 10008-3506.

Financial Information

A copy of the Georgia-Pacific 1989 Annual Report to the Securities and Exchange Commission on Form 10-K will be supplied without charge. Annual Statistical Updates are also available. Requests for financial information should be directed to: Cindy Brown, Investor Relations, Georgia-Pacific Corporation, P.O. Box 105605, Atlanta, Georgia 30348, or telephone (404) 521-5555.

Georgia-Pacific is an equal opportunity employer.

SGP 0030179

GP

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