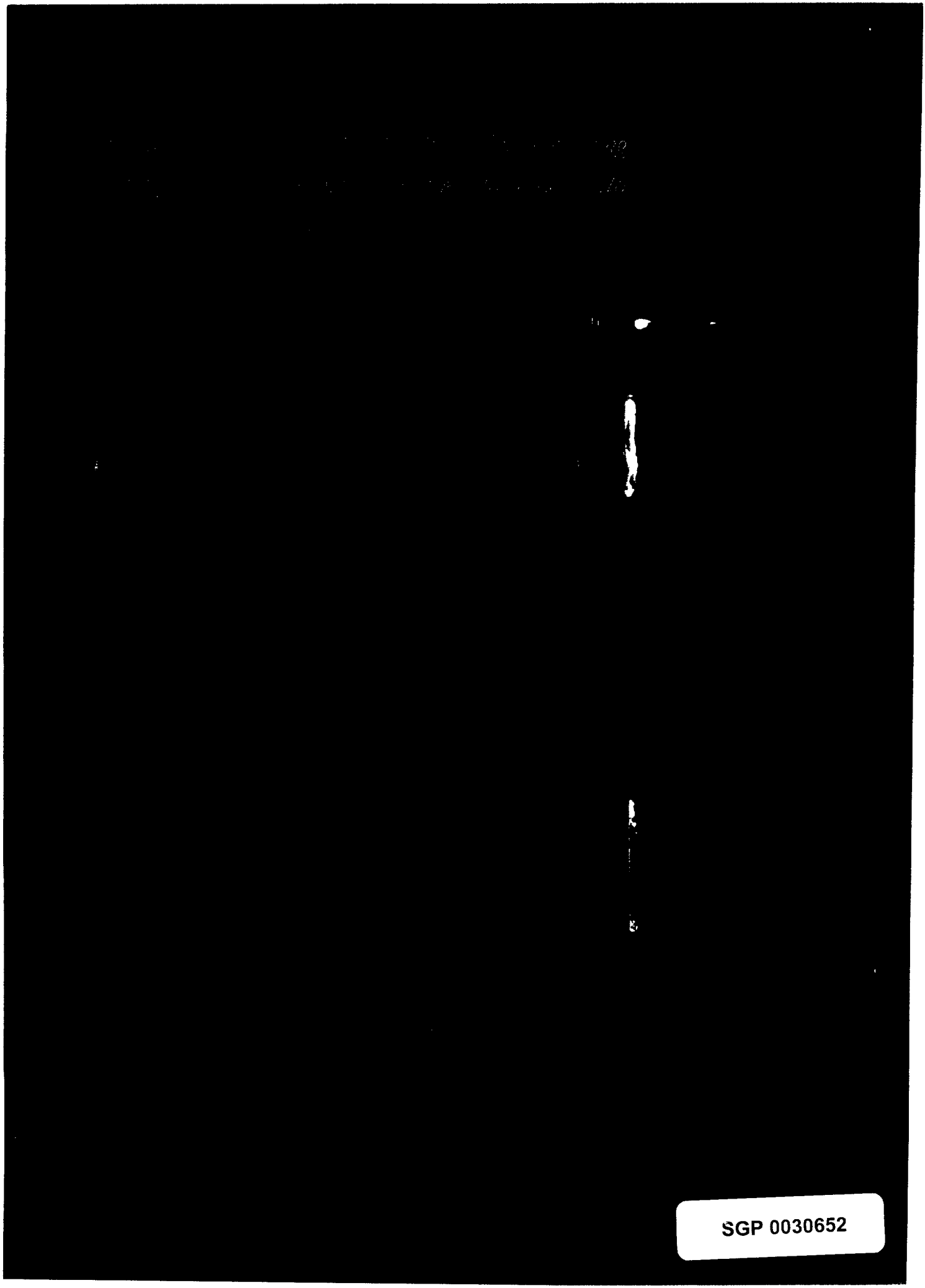


PLAINTIFF'S EXHIBIT

GP-1366

Georgia-Pacific Corporation

SGP 0030651



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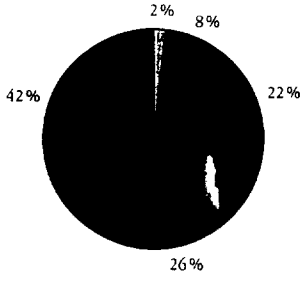
Highlights

Georgia-Pacific Corporation and Subsidiaries

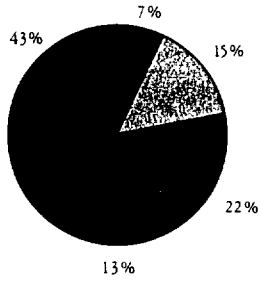
(Dollar amounts, except per share, and shares are in millions)	**1987**	*1986*	*Change*
Net sales	**$8,603**	$7,223	19%
Net income	**458**	296	55
Income per common share	**4.23**	2.70	57
Depreciation and depletion	**387**	339	14
Cash provided by continuing operations	**781**	575	36
Cash dividends paid	**115**	97	19
Total assets at year end	**5,870**	5,114	15
Return on capital employed*	**12.6%**	10.4%	
Return on common equity*	**18.7%**	13.8%	
Total debt-to-capital*	**31.4%**	26.3%	
Cash dividends declared per share of common stock	**$ 1.05**	$ .85	24%
Shares of common stock outstanding at year end	**105**	107	(2)
Number of common shareholders of record	**56,000**	66,000	(15)
Number of employees	**42,000**	39,000	8

**The method of calculating this ratio is described in the Financial Review section starting on page 20.*



1987 Sources of Cash
(Millions)

	Continuing Operations
$ 430	• *Building Products*
351	• *Pulp & Paper*
781	
683	• *Debt Additions*
136	• *Asset Sales and Liquidation of Investments*
32	*Cash on Hand and Other*
$1,632	



1987 Uses of Cash
(Millions)

$ 355	• *Debt Repayments*
699	• *Capital Expenditures*
208	• *Investment in U.S. Plywood*
115	• *Dividends*
255	• *Common Stock Repurchase*
$1,632	

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Georgia-Pacific has just completed a year of substantial progress. Net income last year increased 55 percent to $458 million, and earnings per share grew to $4.23, up from $2.70 in 1986. The company's sales rose to a record $8.6 billion in 1987.

This improvement is largely the result of better market conditions, continuing improvement in product mix, increasing cost competitiveness and growth in our key businesses, as well as the financial decisions and management controls that maximize the impact of these factors to create shareholder value. Strategic acquisitions also played a key role in our success. In the last four years Georgia-Pacific has invested approximately $1.3 billion in capital improvement projects. In that same period G-P also invested nearly $1 billion in acquisitions, nearly half of which were completed in 1987.

Last year's acquisition of U.S. Plywood added significant capacity to the building products business. The purchase broadens Georgia-Pacific's ability to serve industrial wood products markets, which we believe are important to continued growth.

Central to the performance of Georgia-Pacific's building products business is the Distribution Division, with facilities strategically located in large and mid-sized metropolitan areas throughout the country. The distribution centers and shipping facilities acquired from U.S. Plywood have been integrated into the existing Distribution Division. Last year G-P realigned its 153-outlet network, which has been successful in traditional markets, better to serve specialty markets and the manufactured housing industry.

Other wood products acquisitions made during the year include a plywood plant near Madison, Georgia, with nearly 200,000 acres of timberlands and control of an additional 25,000 acres in central Georgia, three Southern pine sawmills, and two hardwood sawmills.

In the pulp and paper segment Georgia-Pacific's strategy continues to be to concentrate on those areas in which the company can be a major factor in the market: containerboard and packaging, printing and writing paper, tissue and market pulp. The company expects to continue to grow through both internal and external investments.

Georgia-Pacific solidified its position as a major supplier to commercial tissue markets with the acquisition of two tissue converting facilities last summer. Plants at Brattleboro, Vermont, and LaGrange, Georgia, convert paper into napkins, towels, tissue and other products for away-from-home markets, a sector with significant potential for growth.

The company also announced capacity increases in two principal paper and paperboard product lines. We are rebuilding the second linerboard machine at Monticello, Mississippi, to increase that machine's production capacity by 500 tons per day.

In addition, the company is installing a second white-paper machine at the Port Hudson, Louisiana, mill to meet the expected growth in demand for computer and reprographic papers and for other white-paper products. Pulp production will be expanded at the Port Hudson mill by more than 400 tons per day with start-up of the second paper machine.

At the Woodland, Maine, pulp and paper mill, construction of a new 1,400 tons-per-day recovery boiler is under way, which will improve the mill's production efficiency and allow for an increase in market pulp production.

Prices improved in the pulp and paper markets last year due in part to the U.S. dollar's drop against key European currencies and the Japanese yen, and we expect continued improvement in domestic and foreign markets in 1988.



Net Sales
(Billions of dollars)

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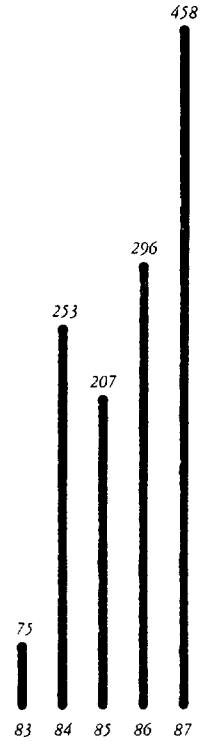


Income from Continuing Operations Before Extraordinary Item
(Millions of dollars)

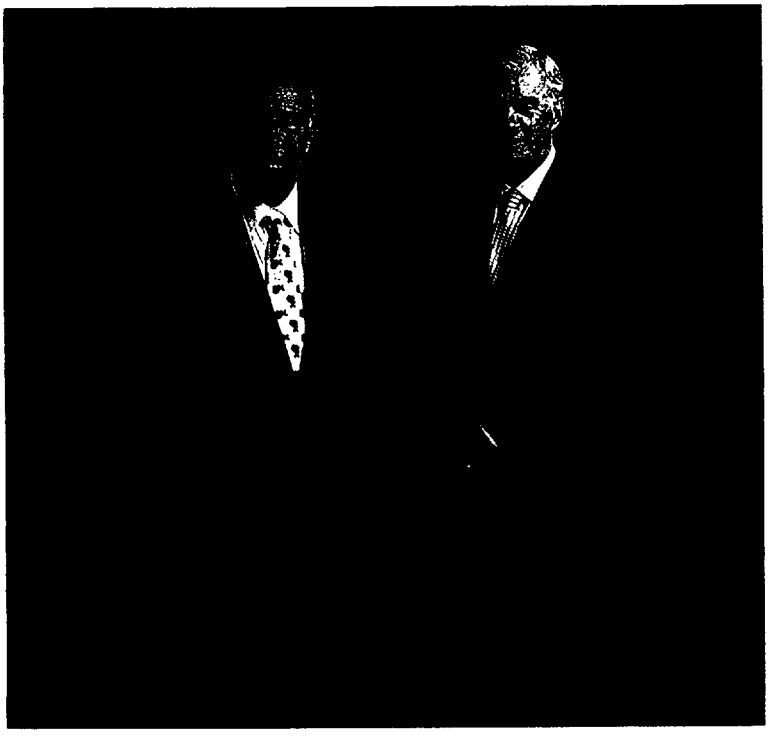
While housing starts may be somewhat lower than 1987 levels, healthy demand from the home improvement and export sectors should keep building products prices and volume strong in 1988. It is significant to note our building products segment profits improved in 1987 by more than 6 percent, despite a decline in total private housing starts of approximately 10 percent from 1986 levels.

While uncertainty about prospects in 1988 has increased as a result of recent turmoil in the financial markets, there were no signs of slowdown in Georgia-Pacific's businesses early in the year. We plan to invest approximately $900 million during 1988, excluding possible acquisitions, with approximately two-thirds going to pulp and paper projects and one-third to building products projects. Georgia-Pacific continues to look at natural resource and manufacturing opportunities to complement its existing operations.

The company began a stock repurchase program during the second quarter of 1987. During that year we repurchased approximately 6.2 million shares of Georgia-Pacific common stock and, subject to our target total debt-to-capital ratio of 30 to 35 percent, will continue to purchase shares in 1988 as market conditions warrant.

Georgia-Pacific's consistently improving earnings enabled your Board of Directors to authorize a dividend increase in the 1987 fourth quarter. The quarterly dividend on common stock was increased from 25 cents to 30 cents per share, in keeping with our policy of paying out one-third of sustainable earnings.

The Board also elected Harold L. Airington to succeed Robert A. Schumacher, who retired as Georgia-Pacific's President and Chief Operating Officer in January 1988. Succeeding Hal as Executive Vice President–Building Products is Ronald P. Hogan, formerly Executive Vice President–Operations.



Harold L. Airington

Harold L. Airington
President and
Chief Operating Officer

T. Marshall Hahn, Jr.

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

February 17, 1988

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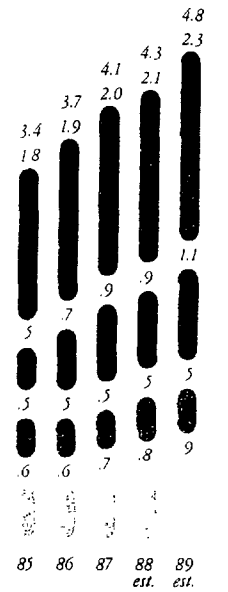
Strong demand coupled with favorable currency exchange rates made 1987 a banner year for Georgia-Pacific's pulp and paper segment. The company also began to reap the benefits from the past four years' substantial investments, which resulted in significant tonnage additions, improved product mix and quality, and better productivity. Georgia-Pacific's pulp and paper group sales and earnings in 1987 were the highest in its 30-year history.

This positive performance was reached in an intensely competitive marketplace, and reflects the growth this business has achieved. Georgia-Pacific's pulp and paper business is primarily focused on product lines that represent greater value in current markets in which increased profitable volume can be generated.



Pulp & Paper Production Trend
(Millions of tons)

- *Paperboard & Kraft*
- *Printing & Writing*
- *Tissue & Sanitary*
- *Market Pulp*

Containerboard

Products from the company's linerboard mills at Monticello, Mississippi, and Toledo, Oregon, are in demand worldwide, and the company has made capital investments to modernize and add capacity. Quality control programs enable the company to "build" quality into the manufacturing process, rather than "inspect" for quality afterward. This up-to-date technology, including a computerized quality control system, is combined with continual sampling, testing and monitoring to give customers linerboard that meets their most stringent specifications.

Toledo also produces high-quality corrugating medium. That mill supplies the company's western container plants, as well as numerous domestic customers.

Georgia-Pacific's linerboard mill at Monticello, Mississippi, exemplifies the company's strategy to upgrade product mix and add value to raw material. Since that mill was purchased in 1984, linerboard production there has increased more than 35 percent. Today Monticello produces more than 2,200 tons per day of high-quality linerboard, enough to fill both G-P's increased requirements and those of domestic and foreign customers.

G-P entered the pulp and paper business in 1957 with construction of its linerboard mill at Toledo, Oregon. Today, that mill supplies more than 500,000 tons annually of linerboard and corrugating medium to G-P's West Coast container plants, as well as to numerous domestic and foreign customers. Linerboard is typically shipped in rolls like those pictured at the right, with dimensions averaging 80 inches wide by 58 inches in diameter and weighing 2.75 tons.

In 1987 Georgia-Pacific produced more than 4 million tons of pulp and paper, with the most significant growth in containerboard and printing paper over the past five years. Further significant tonnage additions are scheduled for 1988 and 1989 as indicated in the above graph.

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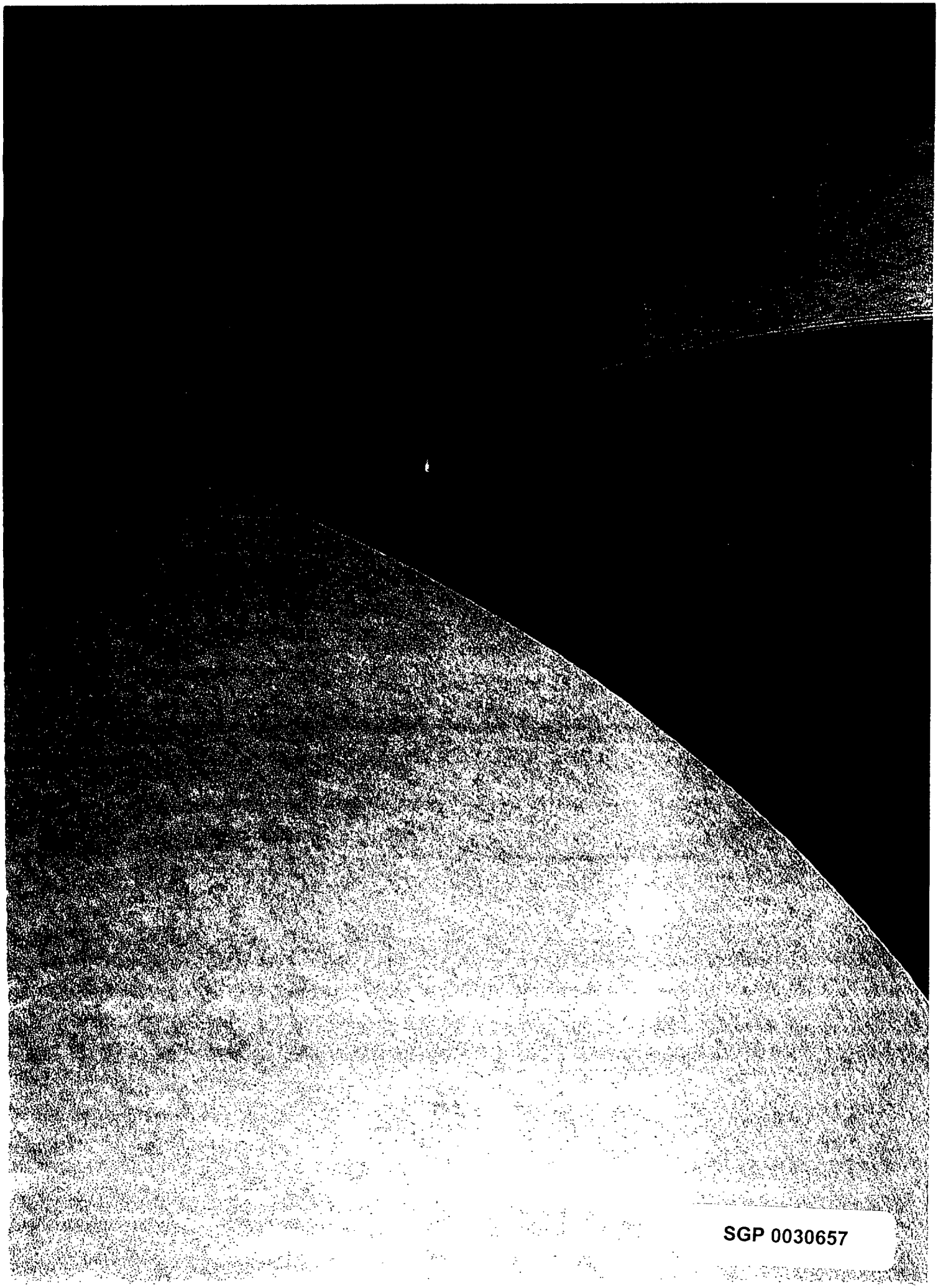
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We are rebuilding our second linerboard machine at Monticello to increase that machine's production capacity by 500 daily tons. The rebuilt machine will include a top wire former with a secondary headbox and a high-intensity press, which allow production of linerboard with superior strength characteristics.

Packaging

Georgia-Pacific's 30 container facilities make the company one of the nation's leading manufacturers of packaging products. G-P can produce a broad array of products, ranging from standard corrugated containers to specialty containers made from *E flute* (used for presentation of high-quality graphics), *triple wall* (used when extra strength is required), *wax-impregnated board* (used for iced products), and *lithographed Coralure®* laminated boxes (printed in up to six colors for "on-the-shelf" marketing).



Profitability in the container business has increased as Georgia-Pacific has cut production costs, and as its reputation as a supplier of high-quality packaging has grown. Investments in state-of-the-art equipment have enabled G-P to grow steadily in production volume and expand its capabilities to take advantage of higher profit margins available for specialty containers.

Georgia-Pacific's commitment to ongoing improvements in quality, product performance and design is exemplified by the Packaging Division's research and development center. The center can perform more than 70 tests that ensure materials and finished products will perform as expected. In addition, at each packaging plant experienced designers customize packaging to meet individual customer needs.

Adding value to its products has been key to G-P's increased profitability. A significant value-added dimension to G-P containers is direct printing at the container manufacturing site. Coralure® containers involve a process of joining offset lithography in up to six colors to single-faced corrugated board. These containers, manufactured at Dubuque, Iowa, and Oshkosh, Wisconsin, aid point-of-purchase marketing.

Georgia-Pacific operates 30 corrugated container facilities nationwide and is among the industry's lowest-cost producers. Building on its reputation as a supplier of high-quality products, the company expanded nationally in the early 1980s, and today supplies higher-margin specialty containers for a variety of needs—from agricultural products to diapers.

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Tissue

Although tissue markets remained highly competitive in 1987, Georgia-Pacific's performance continued to improve in both the consumer and commercial sectors.

In consumer lines Georgia-Pacific is achieving sales and market share gains for its Coronet® and Mr. Big® brands, and it is adding new products to capture additional business. Georgia-Pacific's dedication to first-quality products is exemplified by the introduction of Angel Soft® premium bath tissue last spring, marking the company's entry into this growing market segment. As the category's first new product in a decade, Angel Soft bath tissue is gaining nationwide acceptance rapidly and should be a major factor in raising Georgia-Pacific's consumer tissue market share.

In early 1988, Georgia-Pacific introduced its new Coronet Sparkle™ premium paper towel, which incorporates added strength and absorbency and is virtually lint-free. Sparkle towels will be manufactured at all four Georgia-Pacific tissue mills

Development of Angel Soft tissue and Sparkle towels, along with repositioning of the Mr. Big line, are key components in Georgia-Pacific's strategy to redirect the company's resources in line with consumer trends and to improve sales and market share. At the same time the company is reducing its dependence on sales of lower-margin tissue products.

A major development in the company's strong and growing commercial tissue business in 1987 was acquisition of the converting and distribution assets of Erving Distributor Products Company. Plants at Brattleboro, Vermont, and LaGrange, Georgia, added more than 100,000 tons annually of commercial tissue converting capacity and distribution to serve Georgia-Pacific's steadily expanding away-from-home tissue markets. This growth in capacity, along with product line additions, will support new sales and marketing efforts implemented in 1987 to build on the company's position as a top supplier of quality commercial tissue products and dispenser systems.

To support the company's continuing strategy of forward integration from available pulp capacity and to supply tissue for these growth businesses, Georgia-Pacific has replaced the No. 5 tissue machine at Palatka, Florida, with a new twin-wire unit. This machine is wider and faster than the older equipment, and it adds 100 tons per day of consumer and commercial tissue capacity.



Georgia-Pacific's tissue mill at Plattsburgh, New York, is one of four G-P mills that produce Angel Soft® premium bath tissue and Sparkle™ premium paper towels, new additions to the company's consumer tissue lines. Investments in technology and quality control have enabled Georgia-Pacific to provide these improved products for the marketplace.

Georgia-Pacific produces more than 500,000 tons of tissue products each year, including the familiar consumer brands pictured above, as well as our fast-growing commercial products for away-from-home markets.

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Manufacturer's Coupon	No Expiration Date

Save 30¢

When you buy one package of new

Coronet® Sparkle™

PAPER TOWELS

Retailer: Georgia-Pacific will reimburse you for face value plus 8¢ handling provided you and consumer have complied with the terms of this offer. LIMIT ONE COUPON PER PURCHASE OF PRODUCT(S) INDICATED. Any other use constitutes fraud. Void if reproduced, taxed, prohibited or restricted. Not transferable. Consumer pays sales tax. Cash value 1/20¢. Proof of purchase of sufficient stock may be required. Georgia-Pacific Corporation, Box #880447, El Paso, TX 88588-0447.

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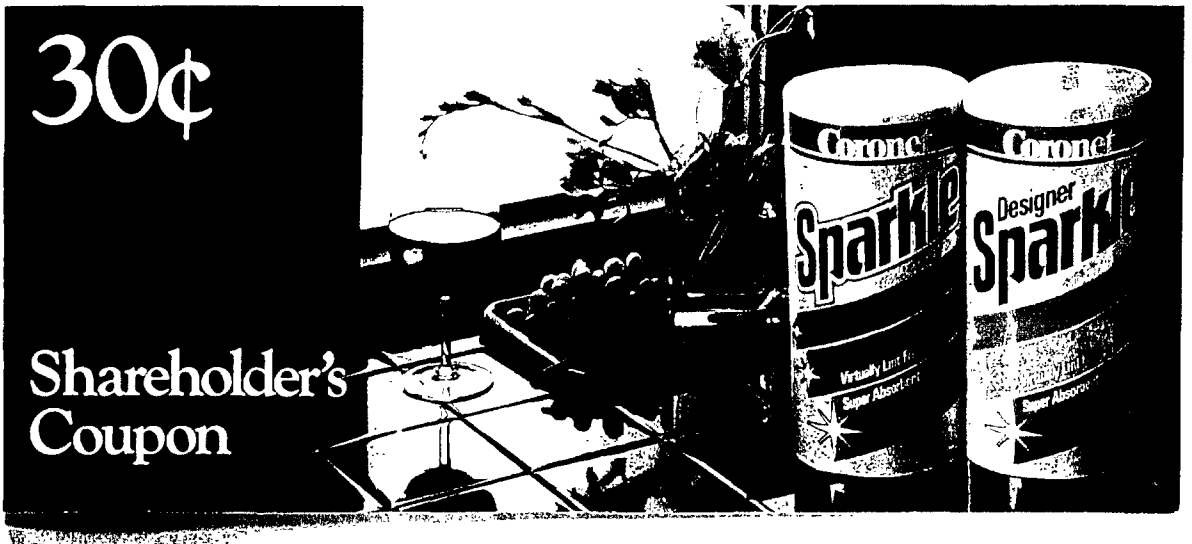
To Our Shareholders:

Georgia-Pacific's Consumer Paper Products Division introduces Coronet® Sparkle™ Paper Towels, the unique new premium paper towel that leaves virtually no wetness, no moisture and no lint behind. Coronet Sparkle–all it leaves is clean.

Use this thirty cents coupon toward your trial purchase of Coronet Sparkle at your favorite store. It comes in two packages: Beautiful Designer Prints and Pure White.

Coronet Sparkle. Made with pride by Georgia-Pacific.

Georgia-Pacific



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Printing and Writing Paper

Georgia-Pacific is a major competitor in printing and writing papers. This market is expected to continue growing at a rate twice that of the Gross National Product, as it has for the past five years. Georgia-Pacific has made substantial investments to improve productivity and increase capacity. As a result, the company now ranks fourth as a supplier to this rapidly growing market, and with this year's expansion the company will advance further.

Georgia-Pacific became a major influence in the printing and writing paper industry with the start-up of one of the world's largest printing paper machines at the company's Port Hudson, Louisiana, pulp and paper mill in 1986.

A second white-paper machine at the Port Hudson mill will further capitalize on the expected growth in demand for white-paper products by producing top-quality uncoated freesheet paper at the rate of 850 tons per day. Pulp production at the mill will be expanded by more than 400 tons per day, and will coincide with start-up of the second paper machine.

Georgia-Pacific also is installing a 1,400 tons-per-day recovery boiler at the company's Woodland, Maine, pulp and paper mill, scheduled for completion in the first half of 1989. The new boiler will boost recovery capacity by 40 percent, improving the mill's production efficiency and increasing pulp production.



Market Pulp

Georgia-Pacific is a market pulp supplier to papermakers throughout the world. The company is known as a reliable, consistent source of pulp that provides brightness, cleanliness and strength to produce top-quality paper from tissue to photographic papers. The decline in the dollar relative to the currencies of our major trading partners has substantially improved the pricing environment in the world pulp markets. Worldwide inventories were at a low level as 1987 ended, and prices were firm.

Georgia-Pacific's pulp and paper mill at Port Hudson, Louisiana, continues to be a major supplier of pulp to export markets. Market pulp is Georgia-Pacific's largest export business, and in 1987, the company sold 516,000 short tons of pulp to foreign markets, about 72 percent of G-P's total market pulp production.

The company's strategy has been to upgrade the value of available pulp, and in 1986 G-P began manufacturing white paper at the Port Hudson mill. In 1988 that mill will begin production on a second white paper machine. Today, the company is the U.S. industry's fourth largest supplier of printing and writing paper, manufacturing more than 900,000 tons of uncoated freesheet paper annually at seven mills in the United States and four mills in the United Kingdom.

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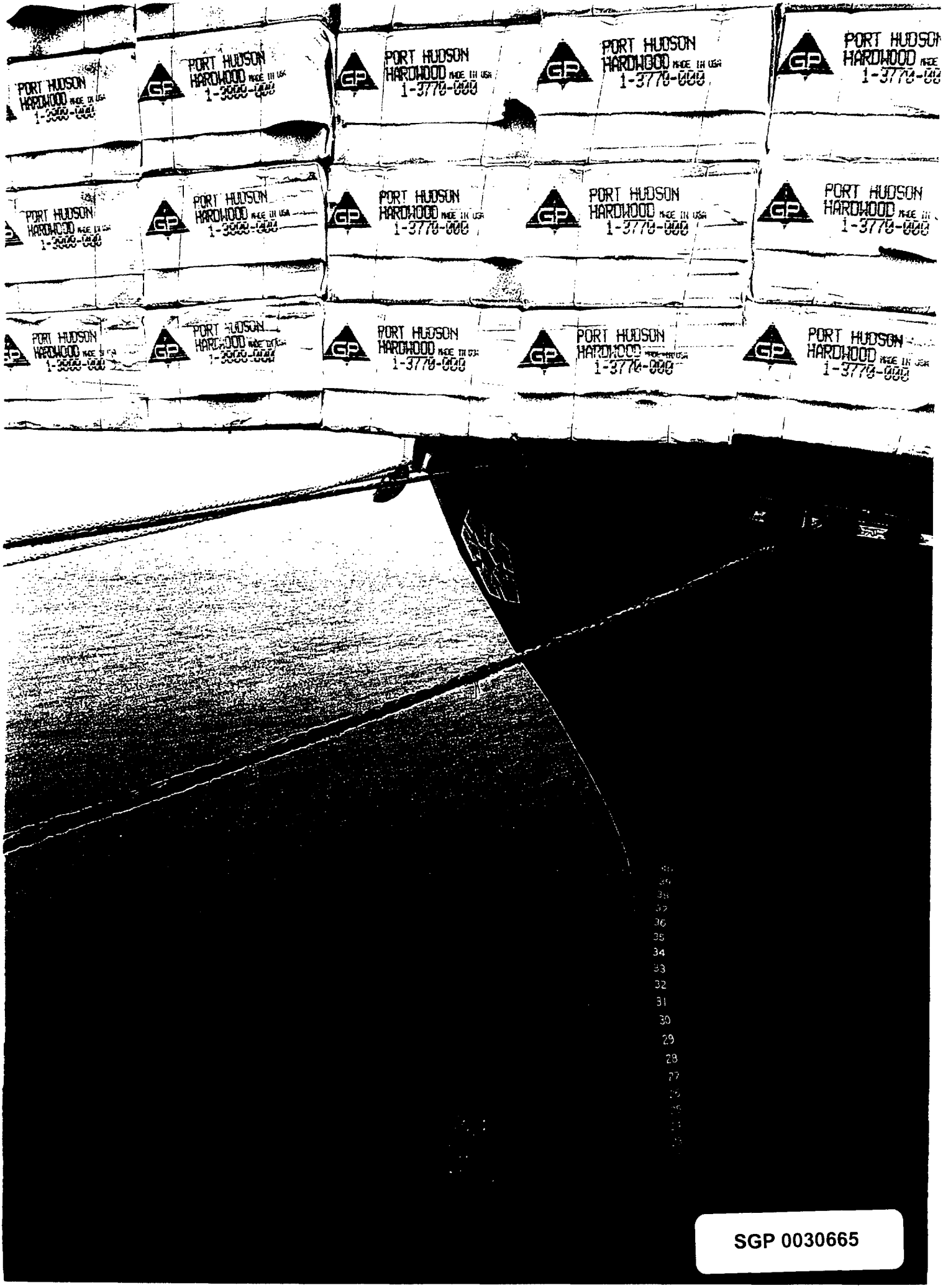
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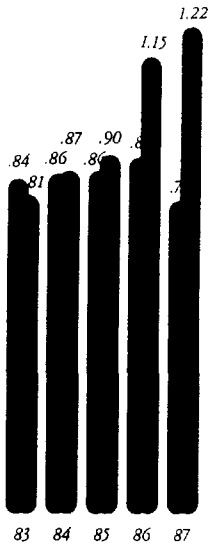
Georgia-Pacific achieved superior results in its building products business in 1987, even during a year when housing starts declined. Operating profits rose more than 6 percent last year to a record $533 million. Sales increased 19 percent above 1986 levels, to $5.8 billion, even though total private housing starts tumbled approximately 10 percent or nearly 200,000 units.

Much of Georgia-Pacific's success in building products comes from its stringent cost controls and its ability to upgrade manufacturing facilities and to improve product lines for maximum profitability.

Even though world financial markets are somewhat uncertain this year, the building products group has become a far more stable earnings generator in the 1980s. A less volatile interest rate environment and the growing impact of markets not related to new residential construction have reduced cyclicality in this business.



Historic Housing Starts / Building Products Profit Performance
(Indexed to 1978 Performance)

- *Housing Starts*
- *G-P Building Products Operating Profit*

Building Products Distribution

In the early 1940s Georgia-Pacific started a subsidiary called Georgia Distributing Yards, Inc., to form a series of warehouses to store the company's products. Today that subsidiary is Georgia-Pacific's Distribution Division, with 153 facilities strategically located in large and mid-sized metropolitan areas throughout the country.

That division provides a ready market for Georgia-Pacific's manufacturing operations, and it enables the company to capitalize on production economies by running its plants and mills at or near capacity. The distribution system also provides a powerful vehicle for establishing markets for new greater value-added products that demonstrate high profitability and growth potential.

With the addition of U.S. Plywood's distribution and shipping facilities last year, the company realigned its network, with 137 outlets serving as full-line traditional centers, two operating as satellite centers, 12 distributing millwork and specialty items, and two distributing products for the manufactured housing industry. With this comprehensive system G-P runs far ahead of its closest competitor as the industry's most consistent and most reliable source of building products.

Home Improvement Markets

New residential construction rose and fell with the volatile money markets of the early 1970s and Georgia-Pacific began to move into the remodeling, repair and additions market.

In 1986 Georgia-Pacific began manufacturing moulding (right), a higher-margin product that the company's Distribution Division had been marketing for many years. Last year G-P opened its first specialty products distribution center in Mira Loma, California, a Los Angeles suburb, to handle moulding and other millwork.

New housing is no longer the driving force behind Georgia-Pacific's building products, as indicated in the chart above. When housing starts declined in 1987, Georgia-Pacific was securely positioned as a ready and reliable supplier to industrial and home improvement markets, which offset the decline in new residential construction.

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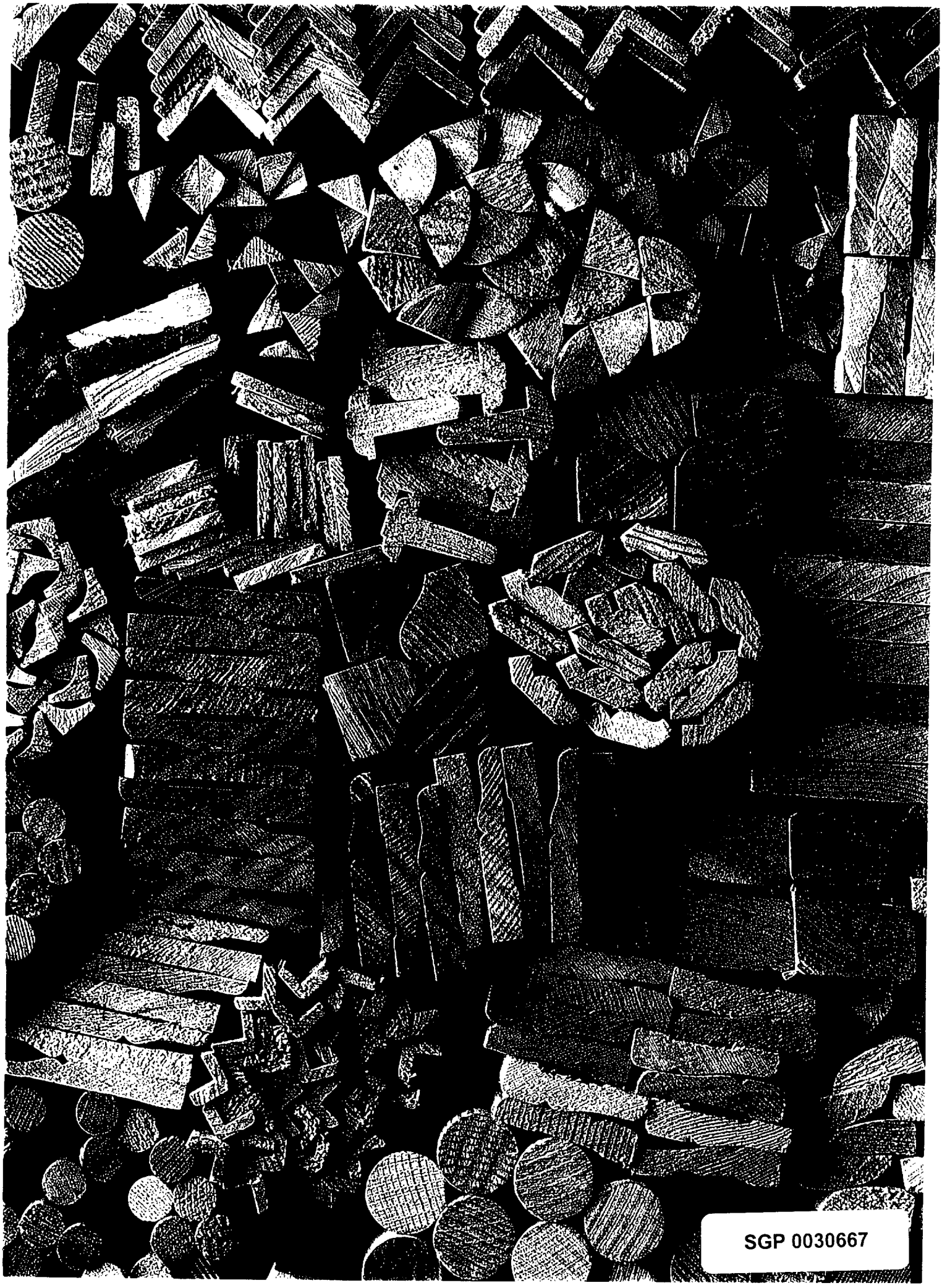

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The impact of the home improvement market on the company's growing profitability is clear: as housing starts declined significantly during 1987, Georgia-Pacific still posted record profits in its building products segment. Another significant factor was the trend toward larger homes, with average contract value rising 13 percent in 1987.

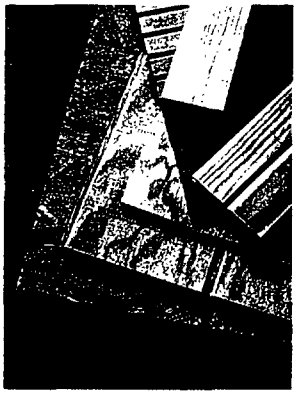
The remodeling, repair and additions market represents significant potential for the future of Georgia-Pacific's building products businesses. Preliminary data for the United States census indicate that 1986 expenditures for home improvements were $91.4 billion, 43 percent of total housing investments that year and almost double those expenditures in 1982. Preliminary data for 1987 suggest that expenditures rose to $95 billion.

By the end of 1988 it is anticipated that the remodeling, repair and additions market will total more than $100 billion. Georgia-Pacific manufactures and distributes approximately half of the product types that are used by this market. Even if the growth rate of the home improvement market slows substantially in the future, Georgia-Pacific believes it can maintain strong sales growth in this area by broadening its penetration of existing markets.

Nonhousing markets, such as commercial, industrial and government construction, comprise another significant market segment totaling about $26 billion.

Building Products Manufacturing

Georgia-Pacific's building products manufacturing operations generated record profits in 1987. Improved productivity and product mix, as well as increased yield from raw materials and strong sales, contributed to the performance of these businesses. Moulding, nine- and ten-foot plywood siding, Dens-Glass® gypsum products and architectural roof shingles are a few additions to G-P's more traditional manufacturing base.



Georgia-Pacific's particleboard plant at Gaylord, Michigan, acquired in 1987, is a one of the world's largest. That plant is a major customer for wood adhesives manufactured at G-P's newest thermosetting resin facility located nearby at Beaver Creek, Michigan.

Demand for G-P's wood products, such as high-grade Arkansas pine lumber, plywood siding and oriented strand board (pictured above), was at an all-time high in 1987. Growing sales to export, home improvement and industrial markets contributed to the year's record performance, despite declining housing starts.

Lumber

Improved prices and favorable export markets contributed to record profitability for Georgia-Pacific's lumber operations in 1987. The company's sawmills utilize sophisticated technology—such as thin-kerf saws and computerized trimmer and edger optimizers—designed to improve yield and product quality. During the year the company acquired three Southern pine sawmills and two hardwood lumber sawmills. The company's 12 hardwood lumber sawmills produce high-grade products required for furniture manufacturing and specialty end-uses. Hardwood lumber also is a popular product in export markets.

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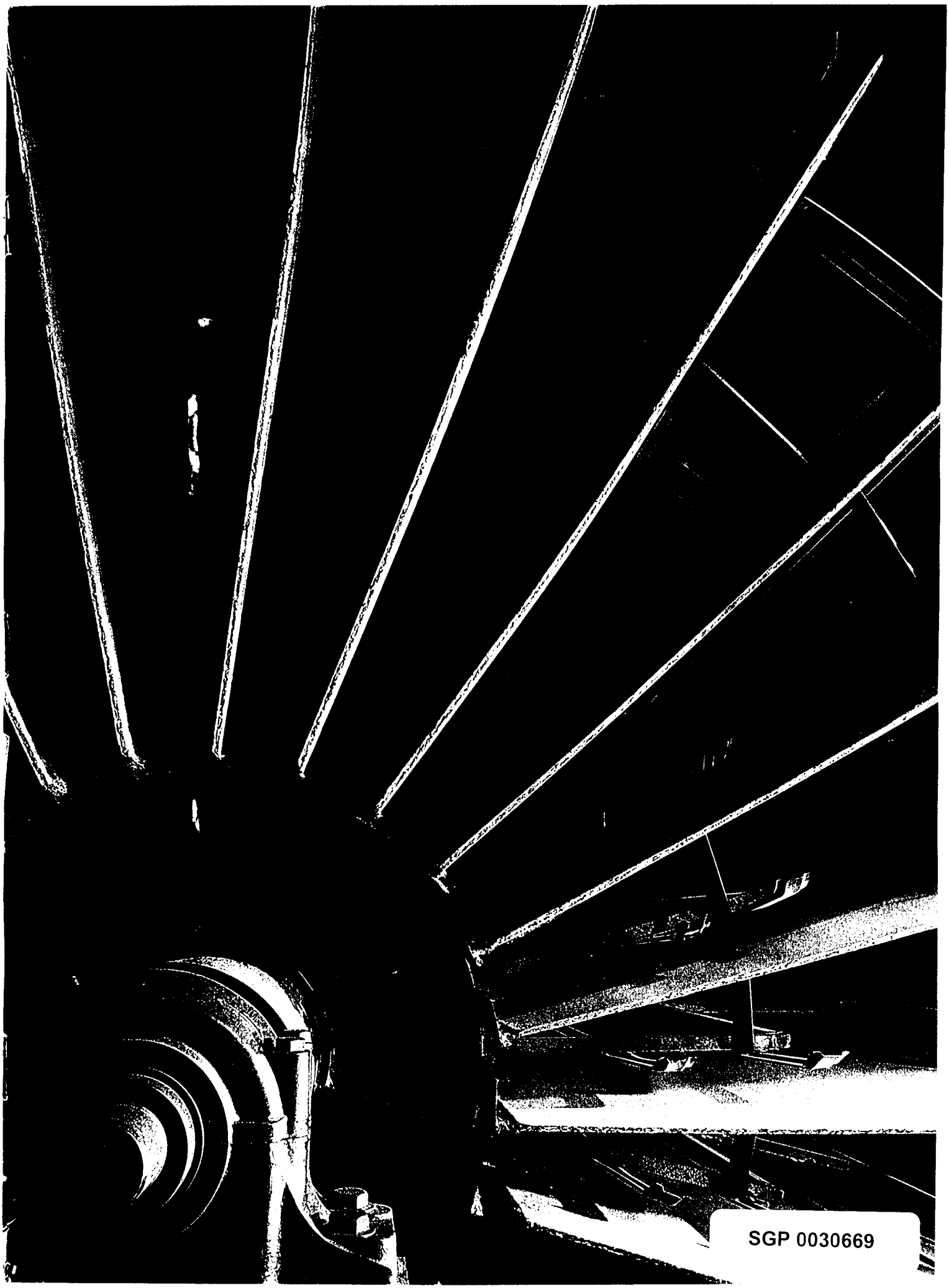
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Wood Panels

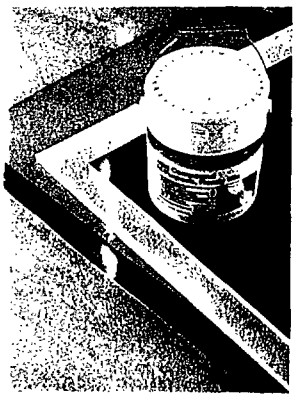
Georgia-Pacific continues to be an efficient producer of plywood, with veneer recovery and production increasing annually. In addition to efficient production, the company has enhanced profits by diversifying its panel production and increasing its volume of higher-margin specialty products.

Growing demand for Georgia-Pacific's nonveneer panels, such as oriented strand board and waferboard, enables the company to continue shifting its plywood production to more profitable specialties like siding.

Gypsum Wallboard

Margins for gypsum products were lower in 1987, but remained at acceptable levels despite reductions in multi-family housing and nonresidential construction brought about, in part, by 1986 tax changes.

Georgia-Pacific has begun production at a new 180-million-square-foot annual capacity gypsum wallboard plant near Las Vegas, Nevada. The company also announced plans for a 270 million-square-foot capacity facility at Paradise, Kentucky, to be completed at the end of 1989. The new plant will produce wallboard by using byproduct gypsum recovered from an adjacent coal-burning power plant, representing low-cost raw material and refining. Both plants will allow improved market penetration in these regions.



Georgia-Pacific gypsum wallboard plants, including the system's newest plant at Las Vegas, Nevada, now produce about 14 percent of gypsum products manufactured in the United States. G-P has added several new specialty wallboard products including Dens-Glass® gypsum board. The "paperless" panel, popular in residential and commercial construction, is a unique combination of a gypsum core with a fiberglass mat on both sides to protect against the elements and maintain structural integrity.

G-P's gypsum products (above) include Ready Mix Joint Compound and a variety of board products such as Dens-Shield™ tile base and Dens-Glass gypsum board.

Roofing

Georgia-Pacific roofing products continued to make progress in 1987, however, margins remained at unacceptable levels.

Our strategy to focus on improving specialty product mix and broadening the customer base for Georgia-Pacific roofing products will continue in 1988. Sales of architectural shingles increased during the year, with the company's new Summit® laminated shingle line gaining good acceptance among customers. Cost-reduction programs will remain in effect in anticipation of continued industry over-capacity and depressed price levels.

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Industrial Wood Products

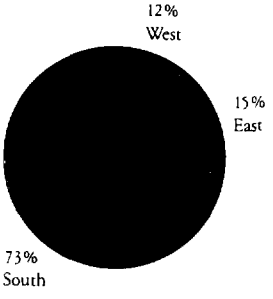
Georgia-Pacific has created an Industrial Wood Products Division, which incorporates the manufacturing, marketing and sales functions of 14 of the company's hardboard, medium density fiberboard and particleboard operations, eight of which were added by the Superwood and U.S. Plywood acquisitions.

That division will serve the growing market that uses wood products in manufacturing other products, such as fixtures, truck bodies and automobiles, and traditional and ready-to-assemble furniture. Georgia-Pacific's broad product lines, nationwide network of distribution centers and extensive mill capabilities enable the company to serve industrial customers' needs for product availability, dependable quality and reliable delivery. The strengths of this division will enable Georgia-Pacific to become a significant supplier to the growing industrial market, much as it already is in the markets for new housing and for renovation.

Chemical Division

Georgia-Pacific's Chemical Division continues to be a major supplier of thermosetting resins to a variety of merchant customers. In 1987, approximately 70 percent of the division's total production went to outside customers. The division also is an important complement to G-P's building products and pulp and paper businesses, supplying resins for wood panels, and wet-strength resins and rosin size for G-P paper products.

In 1988, the company will add significantly to its resin and formaldehyde capacity. Also scheduled is construction of a second rosin size plant at Crossett, Arkansas. The facility will have an annual capacity of 80 million pounds of improved dispersed rosin size, which gives water resistance to paper and paperboard.



Timber Resource Base

	North America (acres)
4,910,000	*Owned in Fee*
670,000	*Controlled*
5,580,000	

Timberlands

Georgia-Pacific increased its timber holdings in central Georgia in 1987 with the purchase of nearly 200,000 acres of timberlands and long-term harvest contracts on an additional 25,000 acres. The company has several wood products facilities in the area, including a plywood plant that was acquired with the timber. The timberlands will help ensure a steady supply of raw material to these facilities at a reasonable cost. G-P also acquired 25,000 acres of prime hardwood timberland in northwestern Pennsylvania.

Our country's natural resource base is one of the world's most abundant, and Georgia-Pacific has more than 5.5 million acres of timberland under management in North America.

Georgia-Pacific's Crossett, Arkansas, forest supplies more than 70 percent of the raw material for the company's multi-mill complex at Crossett. The Crossett forest is intensively managed to produce softwood fiber and, at the same time provides wildlife habitats and recreation opportunities for outdoors enthusiasts.

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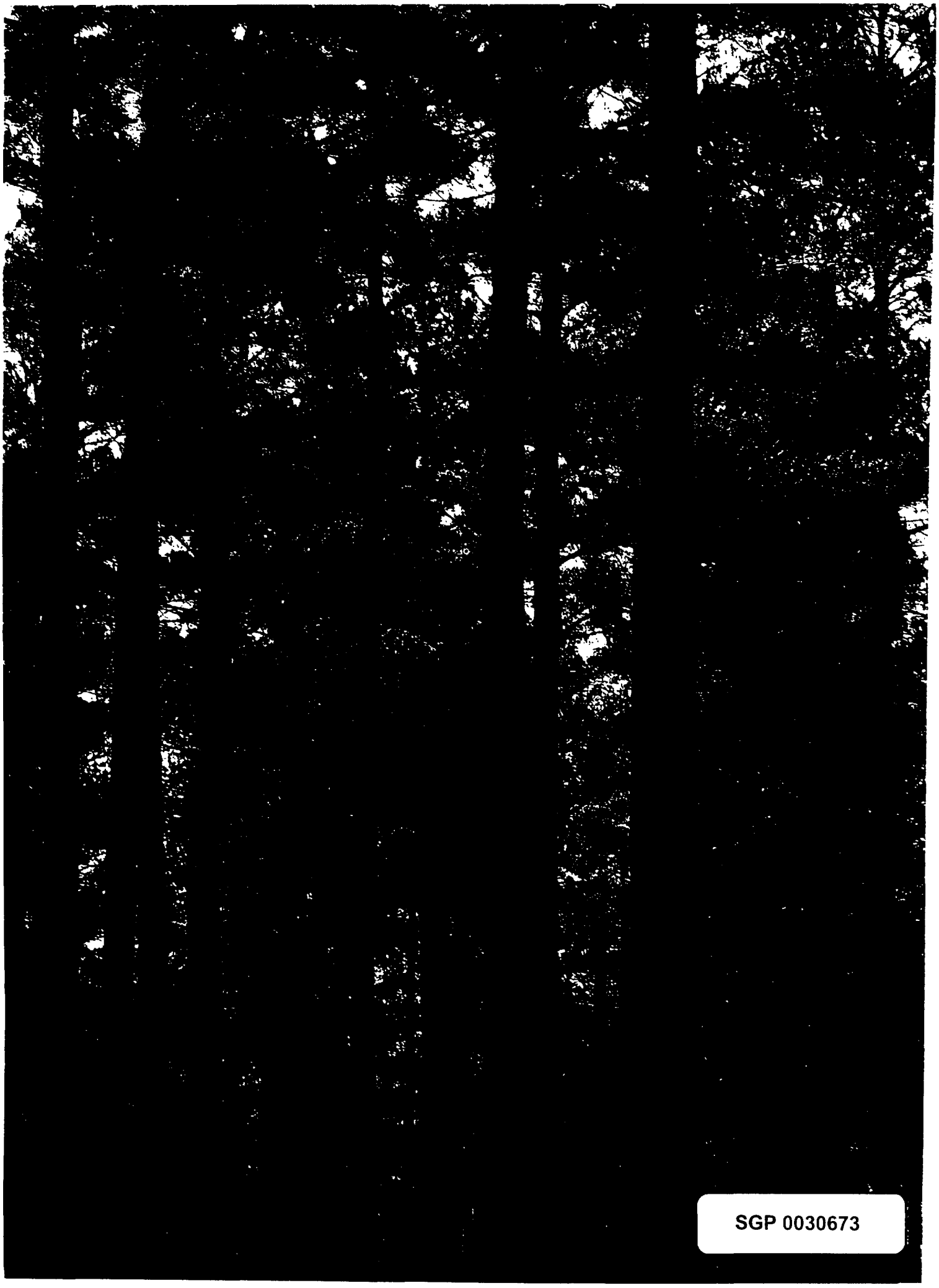

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Georgia-Pacific recognizes as its primary economic responsibility the need to improve the return to its shareholders. Our framework for establishing financial goals, measuring operating performance, making investment decisions and compensating management has been designed to help us fulfill this responsibility.

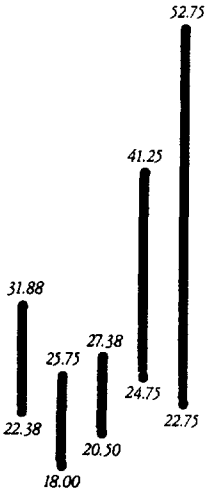
Environment

Turmoil in U.S. and world financial markets in October 1987 had a dramatic effect on the stock prices of most companies, including Georgia-Pacific and others in the forest products industry. Georgia-Pacific's common stock price declined to $34.50 at the end of 1987 from $37.00 at the previous year end, having reached a peak of $52.75 in the first quarter of 1987.

In sharp contrast to the performance of our common stock price, Georgia-Pacific achieved record sales and operating profits in both the building products and pulp and paper segments in 1987.

In our building products segment, record results were posted in 1987 despite a decline in the level of housing starts and little change in most building products price levels. Operating profits were up 6.6%, although total private housing starts declined approximately 10 percent in 1987 in response to an increase in interest rates in the spring. However, marketing efforts in the growing repair and remodeling market along with increased emphasis on specialty and industrial wood products tend to reduce this segment's dependence on new residential construction. For 1988, we expect demand in the building products segment to remain healthy, with most prices remaining near current levels.

Our pulp and paper segment, which has grown substantially in recent years, also achieved record sales and operating profits during 1987. Operating profits in this segment represented approximately 40 percent of the Corporation's total operating profits in 1987, compared with an average of approximately 20 percent for the previous four years. Price levels for most of our pulp and paper products continued to improve during 1987, attributable primarily to a weak U.S. dollar combined with a lack of excess production capacity. We expect to see continued improvement in the pulp and paper segment in 1988, as long as the economy remains healthy and foreign exchange rates remain stable.



Common Stock Price Range
(Amounts in dollars)

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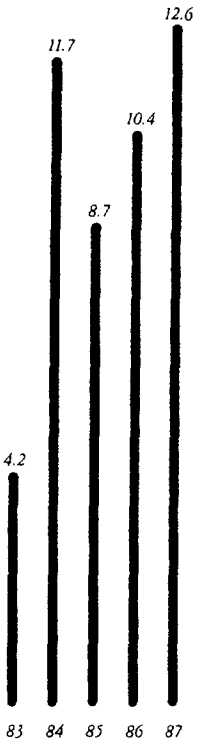
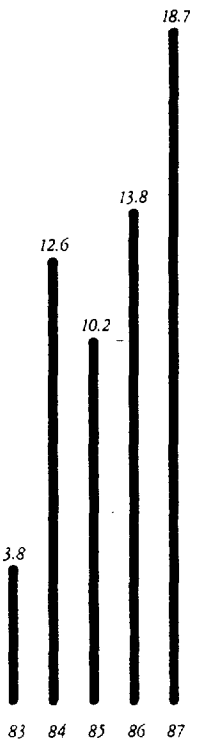


Return on Capital Employed
(Percent)



Return on Common Equity
(Percent)

As a result of lower equity prices, we expect that restructuring will continue in the industry and that there will be opportunities to acquire attractive properties. For Georgia-Pacific, the question will continue to be whether or not the properties can be acquired at prices which will allow an adequate return.

Measurements of Return

Our long-term objective is to generate returns in excess of our cost of capital and thereby add to the wealth of our shareholders. Georgia-Pacific's incentive compensation program bases awards to managers on economic value added in cash over the cost assessed on the capital they employ, which acts to align our managers' economic interests with those of our shareholders.

While not directly related to increase or decrease in shareholder value, one traditional indicator of our performance is return on capital employed. "Return" as used here means profits after actual taxes paid but before financing charges. It is calculated by adjusting income from continuing operations to exclude interest expense (net of taxes) and deferred income tax expense. Total capital employed, measured as of the beginning of the year, is defined as total assets, excluding net assets of discontinued operations, minus noninterest-bearing current liabilities. In 1987, Georgia-Pacific's return on capital employed was 12.6 percent, the highest in the past five years.

Return on common equity, another traditional measure of return, is calculated by dividing income from continuing operations by common shareholders' equity as of the beginning of the year. Return on common equity improved to 18.7 percent in 1987, compared with an average of 10.1 percent for the previous four years.

Over the past five years, we have completed a major program of divesting underperforming assets as well as assets unrelated to core forest products businesses. The cash generated from these divestitures enabled us to reduce debt levels as well as make substantial capital investments to reduce manufacturing costs and upgrade product mix. Georgia-Pacific's improved returns are also attributable to external economic factors which have strengthened building products and pulp and paper markets.

Cash Flow

Georgia-Pacific's continuing operations generated $3.1 billion of cash over the last five years. This cash was used to finance a substantial portion of G-P's growth. From 1983 through 1987, cash provided by operations accounted for 78.3 percent of G-P's total cash sources. During that same period, operating cash flows were supplemented with $762 million of cash proceeds from asset sales and liquidation of investments, including the divestitures of the company's Chemical Packaging Division in 1986, its oil and gas subsidiary in 1985 and the commodity chemicals subsidiary in 1984.

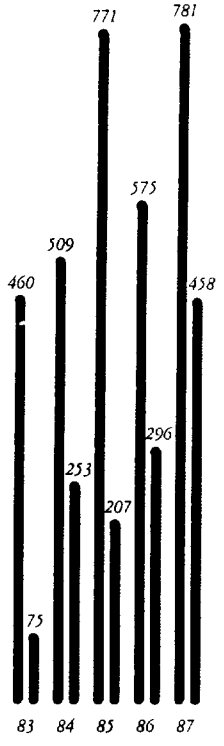
Capital Investments

From 1983 through 1987, Georgia-Pacific spent more than $2.8 billion on capital assets, including almost $2.5 billion for property, plant and equipment and $384 million for timber and timberlands. Recent investments in property, plant and equipment have been concentrated in upgrading and modernizing our pulp and paper segment.

Capital expenditures are categorized as defensive, those Georgia-Pacific must make to stay in business, and as high return, those that are justified on the basis of their discounted cash flow return. Although some defensive expenditures have positive returns, they are not undertaken primarily for that reason. Our ability to make high return investments will determine to a great extent our ability to enhance the value of our shareholders' investment in Georgia-Pacific.

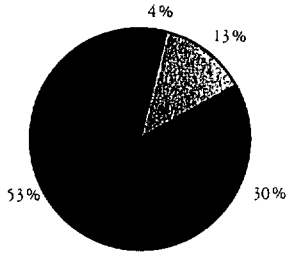
Because of its central importance to our performance, we try to be rigorous in the discipline of capital budgeting. Each major proposed capital project is evaluated by the amount of free cash flow generated over the life of the investment. We define free cash flow as operating profits after taxes paid, plus noncash charges such as depreciation, minus any new investment in fixed assets or working capital required. We try to ensure that projects presented as defensive are necessary and that internal discounted cash flow returns reflect reasonable expectations. Post-completion audits are performed on all major high return projects, both internal projects and acquisitions, to substantiate the achievement of targeted rates of return.

Capital expenditures of approximately $900 million are projected for 1988, absent any major acquisitions. We expect to finance this program with internally-generated funds supplemented, when necessary, with available sources of financing. Consistent with the pattern of recent years, the majority of that amount is expected to be invested in the pulp and paper segment.



Cash Provided by Continuing Operations vs. Income from Continuing Operations
(Millions of dollars)

- *Cash Provided by Continuing Operations*
- *Income from Continuing Operations*



Five-year Capital Expenditures by Industry Segment 1983–87
(Millions)

	Property, Plant & Equipment
$ 854	• *Building Products*
1,498	• *Pulp & Paper*
111	• *Corporate & Other*
2,463	
384	*Timber and Timberlands*
$2,847	

SGP 0030676

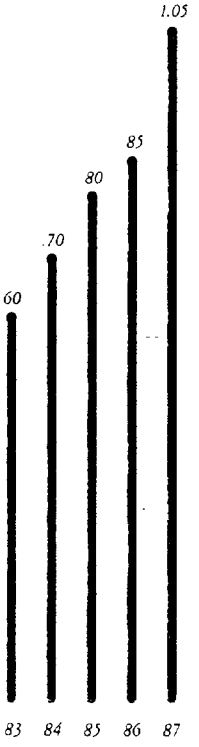


Total Debt-to-Capital
(Percent)

Capital Structure

We believe that managing Georgia-Pacific's capital structure within a 30 to 35 percent range of total debt-to-capital will keep the company's cost of capital competitive while ensuring access to most major capital markets. This access will provide the needed flexibility to take advantage of internal and external investment opportunities as they arise. We calculate total debt-to-capital by dividing total debt by the sum of total debt, deferred income taxes, other long-term liabilities, redeemable preferred stock and common shareholders' equity as of the end of the year.

Total debt-to-capital increased to 31.4 percent at the end of 1987, from 26.3 percent at the end of 1986, primarily because of increased debt incurred as a result of the purchase of U.S. Plywood Corporation for $208 million, acquisitions of timber and timberlands for $90 million and the purchase of six million shares of common stock for $255 million. The Corporation has been authorized by its Board of Directors to purchase its common stock in the open market or in privately negotiated transactions provided the total debt-to-capital ratio does not exceed 35 percent. Open market purchases of the Corporation's common stock could be substantial, depending on future market conditions and other considerations.



Dividends Declared per Common Share
(Amounts in dollars)

Dividends

We recognize the importance of dividends in addition to stock performance as part of the total return to Georgia-Pacific's shareholders. As reflected in the chart, quarterly dividends have steadily increased over the past five years, reflecting the Corporation's earnings growth. Consistent with our guideline of paying approximately one-third of sustainable earnings, the quarterly dividend rate was increased to 25 cents per share in late 1986 and again to 30 cents per share in late 1987.

The amount of future dividends will be determined by capital needs and other cash requirements and by the prospective returns on incremental capital retained in the business. Our objective is to maximize total returns to shareholders.

SGP 0030677

Operating Statistics

Georgia-Pacific Corporation and Subsidiaries

	As of December 31, 1987		*Production*				
	No. of Facilities	*Rated Annual Capacity*	**1987**	*1986*	*1985*	*1984*	*1983*
Building products							
Wood panels							
Softwood plywood (⅜") (m.sq.ft.)	19	5,175	**5,050**	4,706	4,414	4,443	4,430
Hardwood plywood (sm) (m.sq.ft.)	2	373	**357**	335	311	343	442
Particleboard (¾") (m.sq.ft.)	7	970	**695**	425	410	381	400
Softboard (½") (m.sq.ft.)	1	250	**231**	241	239	243	241
Hardboard (⅛") (m.sq.ft.)	8	1,364	**1,159**	349	368	361	346
Fiberboard (¾") (m.sq.ft.)	1	75	**59**	75	76	69	77
Panelboard (⅛") (m.sq.ft.)	1	300	**295**	248	290	311	299
Waferboard (⅜") (m.sq.ft.)	1	155	**117**	139	128	112	64
Oriented strand board (⅜") (m.sq.ft.)	3	740	**652**	525	173	96	51
Lumber (m.bd.ft.)	41	2,046	**1,956**	1,784	1,684	1,650	1,603
Moulding (m.bd.ft.)	3	39	**30**	8	—	—	—
Gypsum board (m.sq.ft.)	10	2,922	**2,620**	2,473	2,495	2,412	2,242
Roofing—shingles and rolls (t.squares)	5	8,115	**6,976**	7,361	7,789	7,529	5,973
Formaldehyde (m.lbs.)	10	1,209	**1,309**	1,233	1,188	1,169	1,081
Thermosetting resins (m.lbs.)	16	2,063	**2,136**	1,805	1,650	1,527	1,451
Distribution centers	153						
Pulp and paper							
Pulp (t.tons)	27*	4,495	**4,277**	3,970	3,292	3,332	2,976
Paper (t.tons)		3,595	**3,417**	3,135	2,824	2,703	2,375
Corrugated packaging (m.sq.ft.)	30	18,449	**15,750**	14,572	13,703	11,880	8,427
Tissue products (t.tons)	4	471	**422**	437	432	422	422
Miscellaneous facilities							
Building products	16						
Pulp and paper	21						
Other manufacturing operations	3						
Resources (as of December 31)							
North American timberlands (t.acres)							
Owned in fee			**4,910**	4,700	4,760	4,920	4,630
Controlled			**670**	530	480	480	530

**Total for pulp/paper*

sm = surface measure basis
t = thousands
m = millions

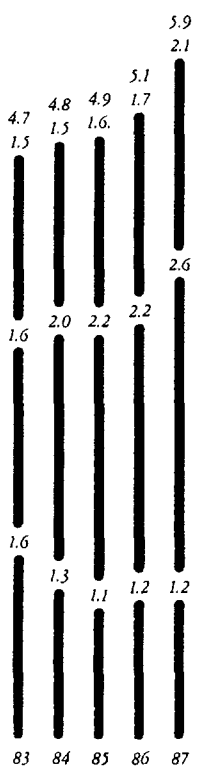
SGP 0030678

Sales and Operating Profits by Industry Segment

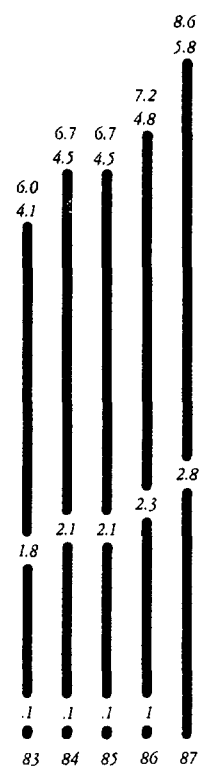
Georgia-Pacific Corporation and Subsidiaries

(Millions) *Year ended December 31*	**1987**		*1986*		*1985*		*1984*		*1983*	
Trade sales										
Building products										
Wood panels	**$2,355**	**28%**	$1,864	26%	$1,666	25%	$1,637	25%	$1,560	26%
Lumber	**2,002**	**23**	1,676	23	1,434	21	1,461	22	1,424	24
Gypsum products	**361**	**4**	375	5	377	6	360	5	269	4
Roofing	**194**	**2**	230	3	260	4	268	4	222	4
Thermosetting resins	**189**	**2**	155	2	173	3	186	3	162	3
Other	**654**	**8**	553	8	560	8	540	8	506	8
	5,755	**67**	4,853	67	4,470	67	4,452	67	4,143	69
Pulp and paper										
Containerboard & packaging	**1,246**	**15**	1,029	14	1,037	15	909	13	647	11
Tissue	**539**	**6**	502	7	514	8	507	8	449	7
Printing and writing papers	**621**	**7**	461	7	356	5	445	7	450	7
Market pulp	**314**	**4**	221	3	157	2	225	3	191	3
Other	**90**	**1**	68	1	70	1	25	—	31	1
	2,810	**33**	2,281	32	2,134	31	2,111	31	1,768	29
Other operations	**38**	**–**	89	1	112	2	119	2	129	2
Continuing operations	**$8,603**	**100%**	$7,223	100%	$6,716	100%	$6,682	100%	$6,040	100%
Operating profits										
Building products	**$ 533**	**58%**	$ 500	73%	$ 391	86%	$ 379	63%	$ 277	92%
Pulp and paper	**383**	**41**	146	22	29	6	202	34	13	4
Other operations	**10**	**1**	35	5	35	8	20	3	13	4
Continuing operations	**$ 926**	**100%**	$ 681	100%	$ 455	100%	$ 601	100%	$ 303	100%

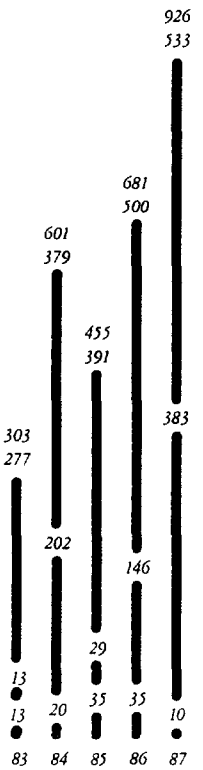
Sales figures exclude intercompany sales, but income on such sales is included in operating profits. Operating profits are before income taxes, interest and general corporate expenses, unusual items and the extraordinary item.



Assets by Industry Segment
(Billions of dollars)



Sales by Industry Segment
(Billions of dollars)



Operating Profits by Industry Segment
(Millions of dollars)

- *Building Products*
- *Pulp & Paper*
- *Other Operations*

SGP 0030679

T. Marshall Hahn, Jr.
Chairman and Chief Executive Officer; Atlanta, Georgia

Harold L. Airington
President and Chief Operating Officer; Atlanta, Georgia

Willard S. Boothby, Jr.
Managing Director, PaineWebber Incorporated; Investment Bankers; New York, New York

Robert Carswell
Partner, Shearman & Sterling; Attorneys; New York, New York

Robert B. Claytor
Chairman of the Executive Committee, Norfolk Southern Corporation; Norfolk, Virginia

Harvey C. Fruehauf, Jr.
President, HCF Enterprises, Inc.; Private Investment Company; St. Clair Shores, Michigan

Richard V. Giordano
Chairman and Chief Executive, The BOC Group plc; Windlesham, England

Francis Jungers
Private Business Consultant; Portland, Oregon

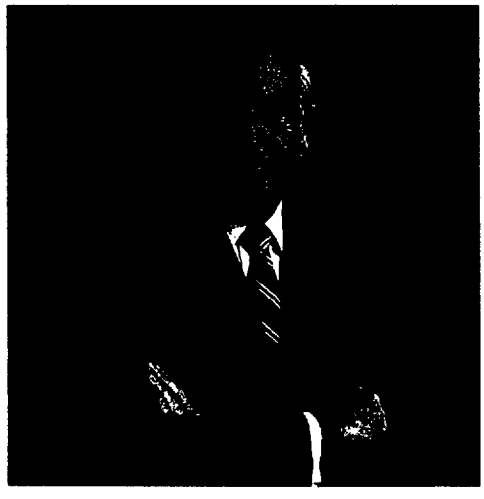
F. James McDonald
President and Chief Operating Officer (retired), General Motors Corporation; Detroit, Michigan

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

Chauncey J. Medberry
Chairman of the Board (retired), Bank of America N.T. & S.A. and BankAmerica Corporation; Los Angeles, California

Norma Pace
President, Economic Consulting and Planning, Inc.; New York, New York

Robert A. Schumacher
President and Chief Operating Officer (retired); Darien, Connecticut



Robert A. Schumacher retired as President and Chief Operating Officer on January 31, 1988. He will remain on the company's Board of Directors.

We are grateful for his outstanding contributions to Georgia-Pacific's growth and increased success in the pulp, paper and paperboard business during his 25 years as an executive with our company. He has provided strong and effective leadership in developing and implementing our strategy of expanding and improving that business segment to balance our large building products operations. We have been fortunate indeed to have his talents available as president and chief operating officer.

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Officers

Georgia-Pacific Corporation and Subsidiaries

T. Marshall Hahn, Jr., *Chairman and Chief Executive Officer*
Harold L. Airington, *President and Chief Operating Officer*
Ronald P. Hogan, *Executive Vice President–Building Products*
Davis K. Mortensen, *Executive Vice President–Building Products Manufacturing*
Conrad Schweitzer, *Executive Vice President–Pulp and Paper*
James C. Van Meter, *Executive Vice President and Chief Financial Officer*
J. Kermit Birchfield, Jr., *Senior Vice President–Legal and Governmental Affairs*
A. D. Correll, *Senior Vice President–Pulp and Printing Paper*
George A. MacConnell, *Senior Vice President–Distribution Division*
Daniel A. Martinez, *Senior Vice President–Pulp and Paper Manufacturing*
Carroll T. Tolar, *Senior Vice President–Engineering*
Maurice W. Kring, *Group Vice President–Packaged Products*
J. Wayne Amy, *Vice President–Distribution Division Southwest Region*
Joseph J. Armetta, *Vice President–Distribution Division Midwest Region*
David S. Dimling, *Vice President–Printing Paper Division*
Willie L. Duke, *Vice President–Eastern Wood Products Manufacturing Division*
Diane Durgin, *Vice President–Law and Secretary*
Duncan B. Facey, *Vice President–Distribution Division Northeast Region*
David R. Fleiner, *Vice President–Wood Products Sales*
Donald L. Glass, *Vice President–Gypsum and Roofing Division*
Clifford T. Howlett, Jr., *Vice President–Government Affairs*
Stephen K. Jackson, *Vice President–Distribution Division Marketing and Advertising*
Joseph H. Joiner, *Vice President–Controller and Information Resources*
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–Pulp and Paper Information Resources*
Dewey L. Mobley, *Vice President–Western Wood Products Manufacturing Division*
Allan J. Nadeau, *Vice President–Southern Pulp and Paper Division*
Kelly E. Powell, Jr., *Vice President–Distribution Division Western Region*
John F. Rasor, *Vice President–Mid-Continent Wood Products Manufacturing Division*
David W. Reynolds, *Vice President–Human Resources*
Robert A. Starling, *Vice President–Distribution Division Southeast Region*
Marion L. Talmadge, *Vice President–Executive Affairs*
James R. Taylor, *Vice President–Chemical Division*
Douglas A. Thom, *Vice President–Packaging Division*
Michael A. Vidan, *Vice President–Building Products Transportation Division*
Michael B. Wilson, *Vice President–Sales and Marketing Consumer and Commercial Paper Products*
Wayne I. Tamblyn, *Treasurer*

SGP 0030681

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
Morgan Shareholder Services Trust Company
Post Office Box 3981
Church Street Station
New York, New York 10008-3981

Shareholder Information
For shareholder information, contact the Transfer Agent and Registrar, Morgan Shareholder Services Trust Company, at Post Office Box 3981, Church Street Station, New York, New York 10008-3981, or telephone (212) 587-6515.

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

Financial Information
A copy of the Georgia-Pacific 1987 Annual Report to the Securities and Exchange Commission on Form 10-K will be supplied without charge at any time after March 31, 1988. 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; (404) 521-4721.

Georgia-Pacific is an equal opportunity employer.

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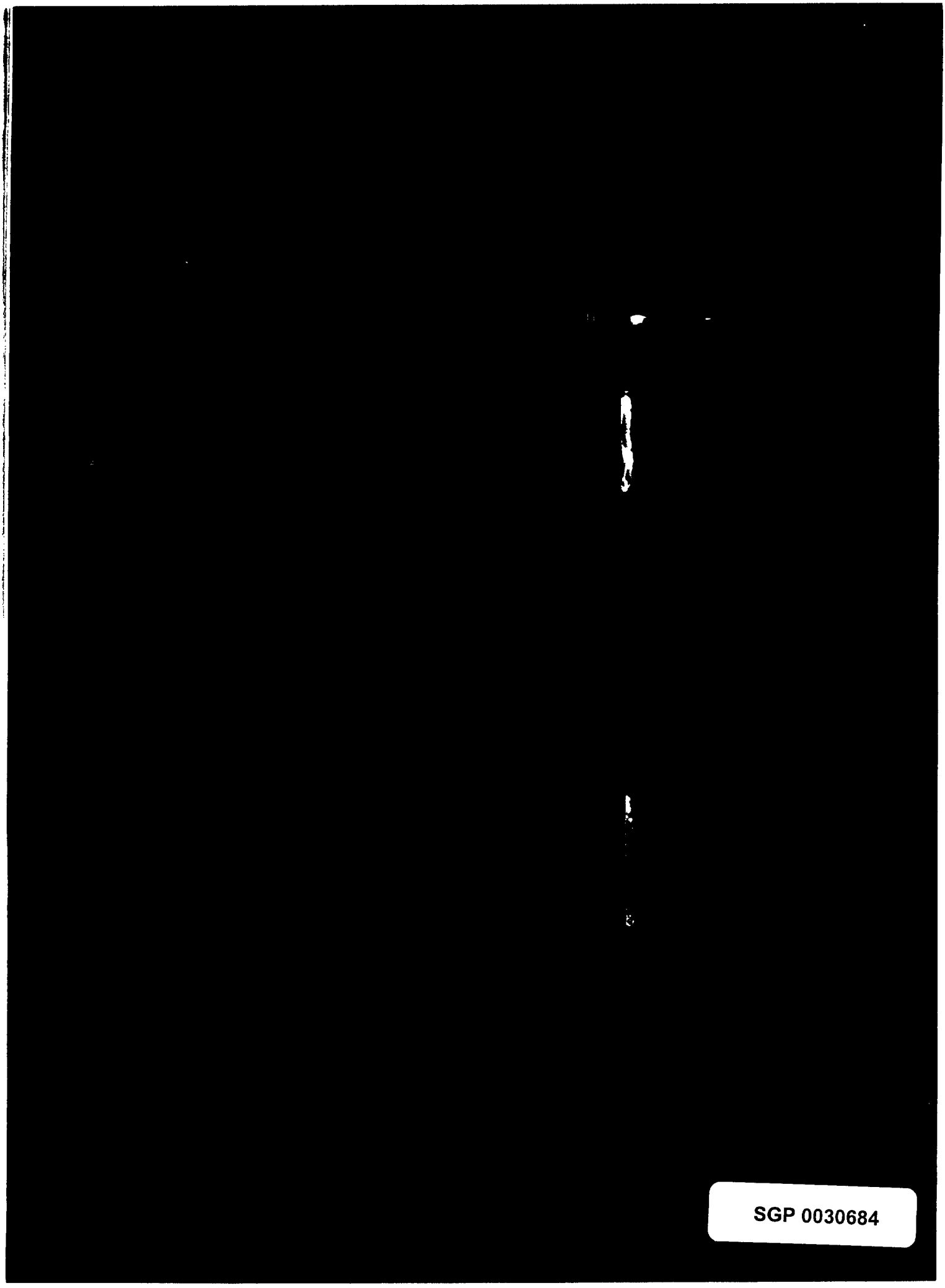

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