

GEORGIA-PACIFIC
CORPORATION

ANNUAL REPORT

1985

PLAINTIFF'S EXHIBIT

GP-1364



"As a home center dealer, I depend on Georgia-Pacific..."

SGP 0030545

...and with G-P as my wholesale supplier, I can get top-quality products at competitive prices with a tremendous range of products and reliable service."

Home center managers depend on the largest supplier to the home center industry - Georgia-Pacific.

Georgia-Pacific Corporation is one of the world's leading producers of forest products. Since its founding in Augusta, Georgia, in 1927 as a wholesaler of hard-wood lumber, G-P has expanded to become a major manufacturer and wholesale distributor of building products, pulp, paper, packaging and related chemicals. Today, the company operates 366 plants, mills and distribution centers and employs 38,000 people.

Our building products distribution system is the industry's most extensive, with more than 140 branches serving every major metropolitan area in the United States. G-P entered the pulp and paper business in the 1950s and has grown from a position of a successful regional operator to a national presence.

To supply its manufacturing operations, G-P owns or has cutting rights on 5.2 million acres of timberland in North America, plus substantial reserves of gypsum, coal, oil and natural gas.

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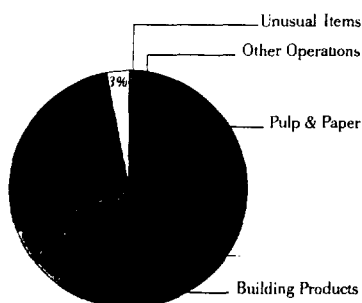
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HIGHLIGHTS

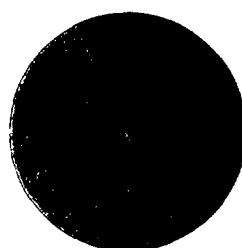
<i>(Dollar amounts, except per share, and shares are in millions)</i>	1985	1984	Percent Change
Net sales	\$6,716	\$6,682	1
Income from continuing operations before extraordinary item	207	253	(18)
Net income	187	119	57
Per common share—fully diluted			
Income from continuing operations before extraordinary item	1.80	2.24	(20)
Net income	1.61	.97	66
Depreciation and depletion	310	282	10
Cash provided by continuing operations	771	509	51
Cash dividends paid	94	86	9
Total assets at year end	4,866	4,785	2
Return on capital employed ¹	8.1%	9.7%	(16)
Return on common equity ¹	10.2	12.6	(19)
Cash dividends declared per share of common stock	\$.80	\$.70	14
Shares of common stock outstanding at year end	103	103	—
Number of common shareholders of record	74,000	79,000	(6)
Number of employees	38,000	40,000	(5)

¹The methods of calculating these amounts are described in the Financial Review section beginning on page 19.



1985 Sources of Cash (millions)

■ Continuing Operations	
Building Products	\$ 434
Pulp & Paper	280
Other Operations	38
Unusual Items	19
	771
■ Discontinued Operations	117
■ Debt Additions	358
□ Other	43
	\$1,289



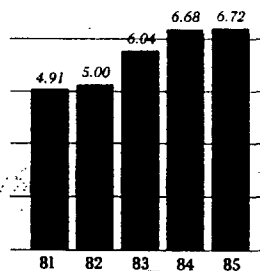
1985 Uses of Cash (millions)

■ Debt and Preferred Stock	
Repayments	\$ 527
■ Capital Expenditures	642
■ Dividends	94
	\$1,263

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The strengths which made Georgia-Pacific a leading forest products company sustained that position during one of the most challenging years the industry has experienced. We retained our position because of our commitment to being a low-cost, efficient producer of high-quality forest



Net Sales (billions of dollars)

products and because we have moved closer to our customers with reliable service, continuously improving quality and upgrading product mix.

We performed well in wood products, despite increased lumber imports and overcapacity in panel markets. Our performance in pulp and paper was disappointing, in large part because of the strong U.S. dollar against foreign currencies and excess worldwide pulp and paper capacity.

Georgia-Pacific is dedicated to the continued growth and

strength of its premier building products business. We achieved near-record performance in this area despite severely depressed markets, and believe that success is due to a combination of several factors.

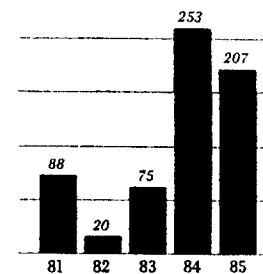
We are a low-cost, efficient producer because we have continued to make investments in our mills. Our large and efficient Distribution Division adds even greater value to our building products by moving them swiftly to the marketplace. We have continued our commitment to serve the needs of new residential construction markets and, at the same time, we have increased our emphasis on the "Do-It-Yourself" and remodeling and repair markets. Our gypsum wallboard business continues to be strong, and we recently announced plans to increase our presence with construction of a new gypsum wallboard plant in Nevada to serve the Western region.

A significant factor disrupting the entire building products industry is the continued flood into the United States of Canadian softwood lumber imports, which are promoted by low-cost government stumpage prices and other subsidies. This problem is now being addressed through

legislative, administrative and diplomatic channels. Success in reducing lumber imports through measures that make trade fairer will help restore the traditional supply/demand balance and help stem the liquidation of many U.S. producers.

Our pulp and paper business was particularly affected by difficult conditions during 1985. In 1986, we expect that business to show improvement, although adverse conditions facing the U.S. pulp and paper industry will likely persist. We are, however, seeing improvement in some major markets, particularly unbleached kraft, linerboard and pulp.

Our pulp and paper business also experienced some short-term disruptions during 1985 which, while costly, we believe will be beneficial for the long-term. Our



Income from Continuing Operations (millions of dollars)

investments in new and converted equipment projects at several of our major mills slowed production, but will improve manufacturing efficiencies and increase the value of our paper products. We also experienced a lengthy strike at our major mill at Crossett, Arkansas, which was disruptive to our operations, but furthered our efforts to bring about improvements in productivity.

In the important tissue sector, we moved to strengthen our position. We also acquired four disposable diaper plants that manufacture primarily private label products. A number of programs to upgrade quality and expand production have already been undertaken. This addition to our product mix not only furthers our goal toward higher value-added products, but underscores our commitment to customer service and quality.

An integral part of both our building products and pulp and paper businesses is our specialty chemical and thermosetting resin division. We enhanced our leadership in wood product resins with a new spray-dried thermosetting resin facility to supply the growing market for waferboard resins. We are also moving forward with plans to construct a resin facility in northern Michigan to serve the growing forest products industry in that region.

Earlier in 1985, we agreed to sell or trade, over a three-year period, 134,000 acres of timberlands in the West because it was more useful to the buyer's Western operations than to our own. We will consider selling additional acreage if we determine that it will benefit our shareholders.

The financial structure of the company has been strengthened over the past few years to accommodate the possibility of acquisitions, as well as to sustain our internal capital investment pro-



Robert A. Schumacher

gram. During 1985, our operating cash flow totaled \$771 million and capital investments were \$642 million.

We anticipate investing approximately \$550 million in 1986 to continue improving our manufacturing efficiency and upgrading our product lines. Our level of capital spending, however, will depend upon what changes are made in the tax code. Any reduction or elimination of incentives to invest in production facilities would adversely impact our capital investment plans.

Our investments are made with the objective of generating improved return to our shareholders. For 1986, we look forward to continued efforts to generate increased value for you, our shareholders. We are committed to keeping costs down and to being innovative and disciplined in production and in the investments we make on your behalf.

We are dedicated to our priorities of focusing on the strengths of our building products business and improving the strengths of our pulp and paper business. As we move closer to our customers with upgraded products of the

T. Marshall Hahn, Jr.

highest quality, we are adding value to your assets. Our ultimate goal is improving the return to our shareholders who have entrusted us with the management of these assets.

We know you will join us in thanking the 38,000 G-P employees who make this superior performance possible. We have a lean, aggressive and enthusiastic work force. They are members of a winning team—and plan to stay that way.

Robert A. Schumacher
President and
Chief Operating Officer

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

February 14, 1986

INITIATIVE IN ACTION: TWO CASES

Georgia-Pacific has built and retained a leadership position in the forest products industry because we have not lost sight of our goal of adding maximum value to our company. We have developed a case study for each of our fiber-based businesses to illustrate how we are managing our assets to increase shareholder value in the challenging environment confronting the forest products industry.

DIY STRATEGY

America has built much of its housing with building materials made by Georgia-Pacific. During the boom years of the 1960s and '70s, we moved to the forefront of the industry by serving our nation's growing demand for quality shelter. Although we continue as the leading supplier of building products to new residential construction, our sales to remodeling, repair and additions are increasingly significant.

During the 1970s, even while housing construction was fueling the greatest boom our industry

has ever known, we recognized that over the longer term we should reduce reliance on this interest-rate-sensitive sector. We saw in remodeling and repair a stable and growing market for building products, which was not as affected by interest rates and which would benefit by several long-term trends. Among them were:

- America's aging housing stock that had become prime for remodeling and repair work, creating a market that was growing bigger every year.
- Rising median home prices that were encouraging more people to remodel, rather than move.

But opportunities for remodeling and repair also increase as sales of existing and new homes increase. Housing affordability—

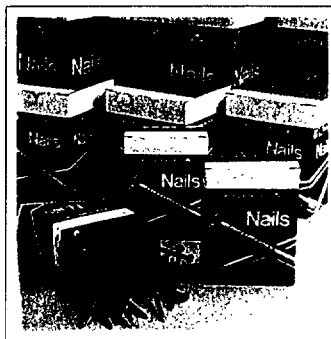
"There's no sense of accomplishment like the one I feel when I build something myself. I've relied on Georgia-Pacific products for years—right down to the smallest house." Georgia-Pacific products for do-it-yourself projects are available in thousands of home centers across the country.

based on inflation, interest rates and housing payments as a percentage of family income—is rising again, creating more home improvement opportunities as people buy or change homes. Increased family income is also spurring expenditures for home improvement projects.

As Georgia-Pacific established itself as the premier supplier to the home improvement industry, we became strategically positioned to benefit from the phenomenal rise of the do-it-yourself (DIY) market. Currently the most rapidly growing part of the remodeling/repair market, DIY growth is expected to increase more than 12% each year through 1990. According to the DIY Institute and the Bureau of Building Marketing Research, the DIY retail market stands today at \$52 billion, and is heading rapidly for \$100 billion by the end of the decade.

Today, three out of four households engage in some type of home improvement work. Home modernization expenditures per family are also increasing as DIYers gain confidence and expertise.

G-P is the largest distributor of nails.

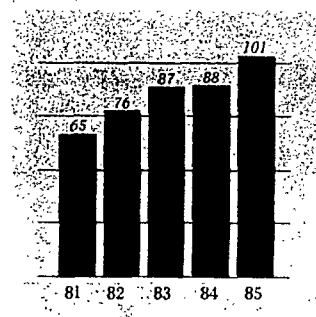




One of the ways Georgia-Pacific has stimulated and shaped the positive direction of the DIY trend is with innovative consumer campaigns. Designed to provide motivation and build confidence—which enhance the overall market—our campaigns also build Georgia-Pacific brand name recognition, brand loyalty and sales.

Because we realize that the ultimate user of Georgia-Pacific products is more and more often the homeowner, we have designed “user friendly” packaging and labeling. To help retailers merchandise our products better, we continue to develop new point-of-purchase displays and literature. Last year, more than 600,000 pieces of literature from our Great

Housing Affordability Index
The index is 100 when median family income equals mortgage qualifying income.



“We found many helpful ideas in G-P’s Great Possibilities® home library. The Paper Works Collection™ prehung paneling is just one of the many G-P products that has made a time-saving difference in renovating our older home.” Millions of Americans choose G-P products for their DIY remodeling projects.

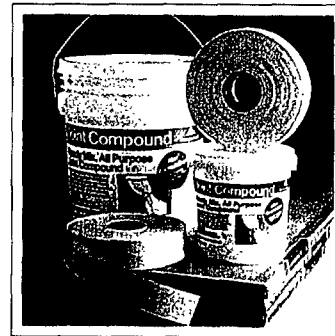
Possibilities® home library were put into the hands of consumers.

We have a powerful advantage in maintaining and strengthening this position in the remodeling/repair market: The marketing muscle of our Distribution Division. With more than 140 wholesale distribution centers serving every major metropolitan area in the United States, Georgia-Pacific is closer to its customers than anyone else in the industry.

Recently 1,500 building supply and home center retailers were surveyed to define the most important factors influencing their selection of suppliers. Retailers were also asked to identify how well major building material suppliers were fulfilling their needs. In virtually every attribute, G-P’s rating was more than twice that of the second-ranked supplier.

Today’s demographic and economic environments favor increased remodeling, repair and expansion of existing dwellings. Our plans for the future include increased development and penetration of the DIY market, with new products and programs. The potential for growth in this sector is impressive and Georgia-Pacific

intends to realize that potential through our production and marketing strengths, directed by the building products industry’s most experienced and successful

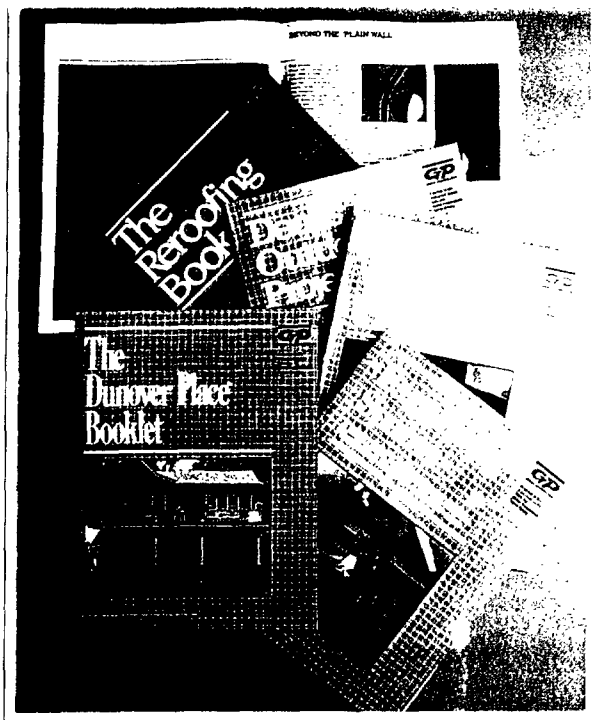


G-P is a major gypsum manufacturer.

management team and by the industry’s leader in distribution to the housing market.

’85 OPERATIONS

1985 was the year that proved the strength and depth of our building products business and marked us as the clear leader in this important industry. While many competitors were curtailing or shutting down operations, we enjoyed excellent results, acquiring and expanding facilities, and developing new products and new approaches to serve growing markets.

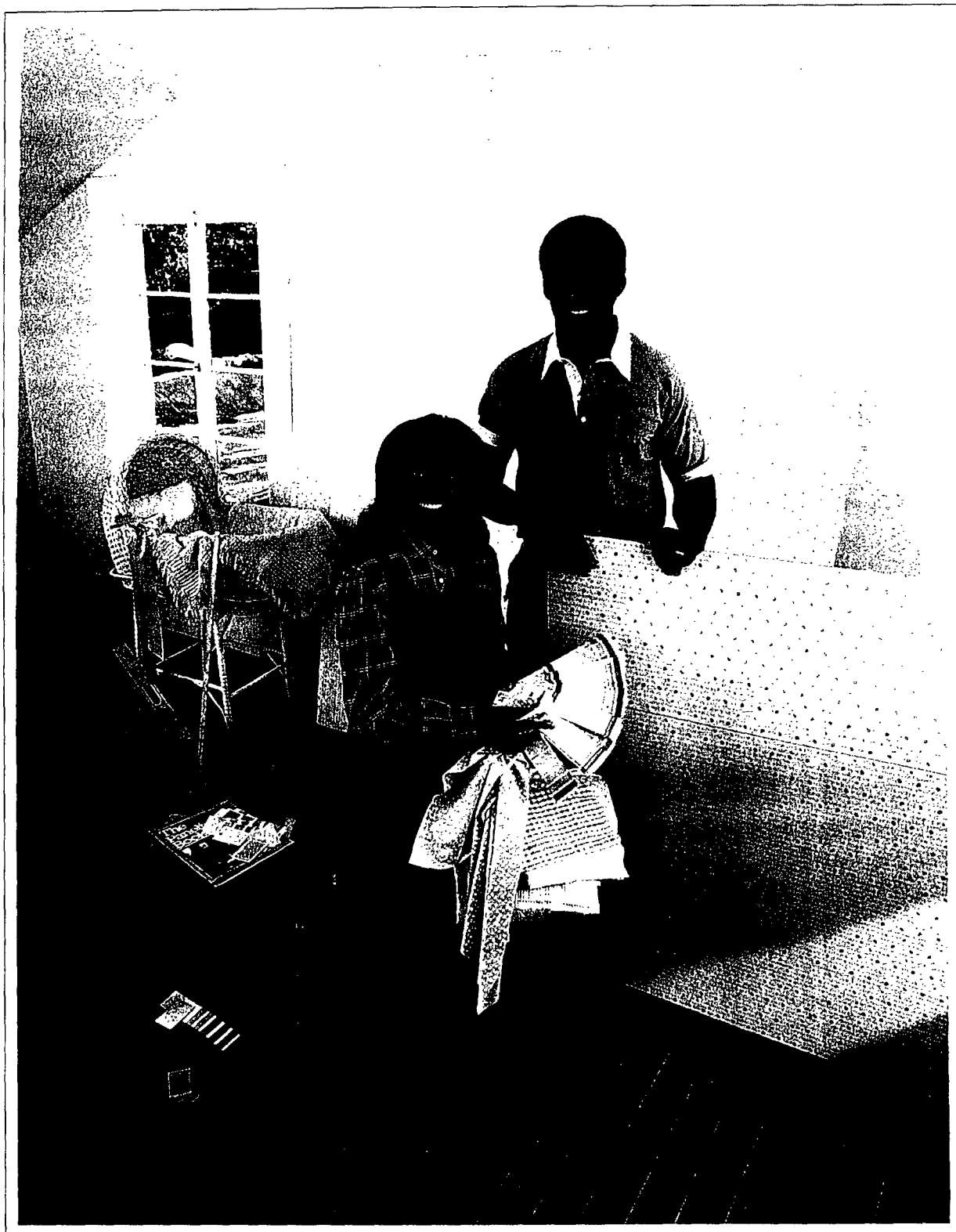


**ADD A GREAT POSSIBILITIES BOOKLET
TO YOUR DO-IT-YOURSELF LIBRARY.**

For a free copy of one of our Georgia-Pacific do-it-yourself booklets, please check one of the following titles.

- ☐ Decks and Outdoor Projects
- ☐ The Paneling Guide
- ☐ Easy Living Spaces
- ☐ The Reroofing Book
- ☐ The Wallworks Guide
- ☐ The Dunover Place Booklet
- ☐ The Shaker Sewing Center

Please check one only.



Our success in building products comes from our ability to control costs and to upgrade manufacturing facilities and product lines for greater profitability. The marketing muscle of our Distribution Division enables us to move these new products to customers nationwide and to develop new markets and customers.

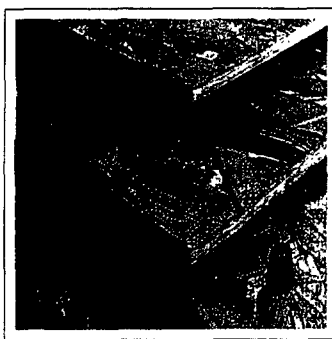
As outlined in more detail in the case study on pages 4-6, our Distribution Division helped us strengthen our position as a leading supplier to the growing market for remodeling, repair and additions.

Our distribution system is also tapping the potential of other markets such as commercial and industrial construction and is a powerful vehicle for establishing new products which have greater profitability and growth potential.

Recent product additions include composite panels such as oriented strand board (OSB) and waferboard. OSB uses lower-cost raw materials than plywood and has received enthusiastic customer reception for many uses. Last year we started up two large OSB plants at Grenada, Mississippi, and Skippers, Virginia,

which will soon be producing at full capacity.

Our annual capacity to produce OSB and waferboard now stands



G-P added two large OSB plants in 1985.

at 815 million square feet (3/8 inch basis), allowing us to shift our plywood production toward more profitable specialty products, such as sanded grades, and grades used for siding and concrete form. For example, we began manufacturing nine- and ten-foot plywood siding at Russellville, South Carolina, in 1985, and will soon begin production at Crossett, Arkansas, as well. Our experience with the production at Russellville has been extremely encouraging. Through the strategic positioning of these facilities and the marketing strength of our Distribution Division, we will successfully penetrate

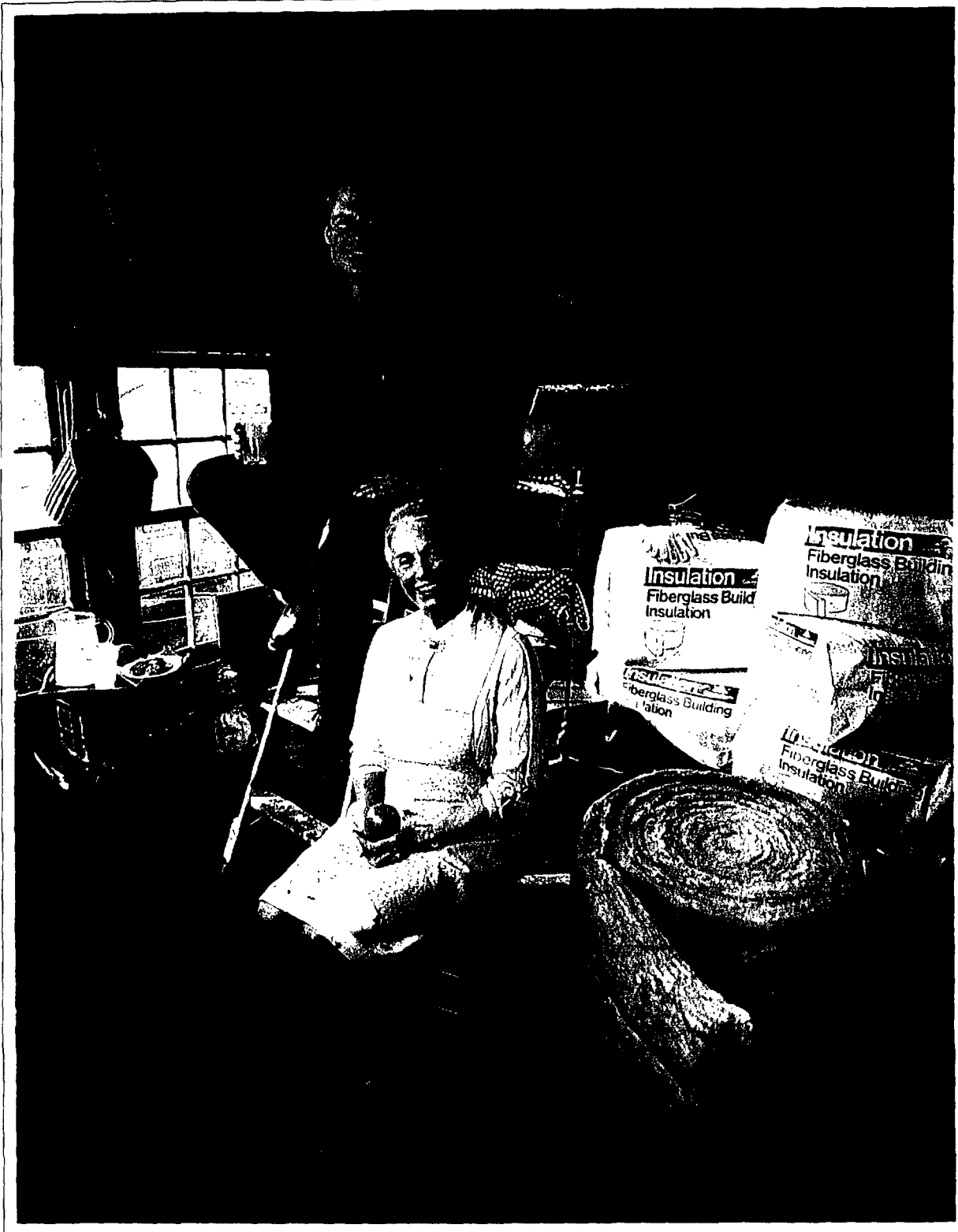
Eastern markets for this longer siding, which have traditionally been served by facilities west of the Rockies.

Our Southern pine plywood plants are currently producing more than 50% specialties and that proportion will continue to rise during 1986 and in future years. This plywood diversification strategy has helped G-P maintain leadership and generate superior profits in the production and marketing of plywood.

The productivity improvements in our plywood operations have helped us do well in this part of the business, despite the oversupply in structural panel markets. Our investments in improved technologies have enabled us to improve timber utilization. For example, we are currently peeling nearly 70% more veneer from each log as when we pioneered the Southern pine plywood industry in the 1960s.

Although Canadian lumber imports resulted in lower prices than expected during 1985, Georgia-Pacific remained a strong factor in the lumber business. Our distribution strength played a substantial role in

“When my mother asked me how she might stretch her income a little, I suggested that we increase the efficiency of heating and cooling her home. I installed the same product I had used in my own home – G-P insulation. We achieved an important savings, at a reasonable expense.”



maintaining a superior position in this oversupplied sector, as did the growing market for treated Southern pine lumber and our ability to improve quality, while reducing costs.

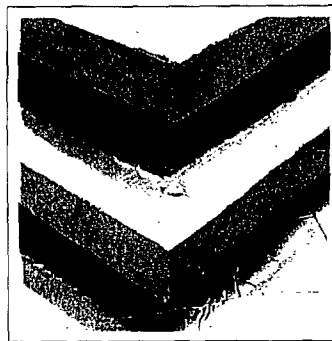
Virtually all of our sawmills now benefit from thin-kerf saws, which cut a smaller path in the log, resulting in more lumber and less sawdust. In our softwood lumber mills, we are completing installation of computerized trimmer and edger optimizers, which scan each board for maximum yield.

We acquired two sawmills in Virginia that will improve our service to the growing mid-Atlantic markets, and we are expanding production at our El Dorado, Arkansas, sawmill. We also acquired a hardwood lumber dry kiln and planing facility in western North Carolina to serve the furniture and related industries, while adding value to our Appalachian hardwood lumber.

Georgia-Pacific is also a leading supplier of thermosetting resins and adhesive binders to the wood products industry, and we make many other industrial resins as well. During 1985, we began to

serve the rapidly growing market for the new composite structural panels with start-up of the nation's first spray-dried waferboard resin plant at Crossett, Arkansas.

Strong demand continued for gypsum products in 1985, and our performance also benefited from reduced costs and new products. We recently introduced Dens-Glass™ (patents pending), a system which uses gypsum wall-board with fiberglass surfacing on the face and back. This new product has waterproofing characteristics that make it



Home insulation products are a recent addition to G-P's distribution system.

a superior product for exterior wall applications.

We strengthened our gypsum operations with expansions at Acme, Texas, and Brunswick, Georgia; development of a new

quarry in Nova Scotia, Canada; and internal improvements that lowered energy use, an important cost component of gypsum manufacturing. In January, the Board of Directors approved a new wall-board plant in southern Nevada.

The combination of our strong distribution network and efficient and strategically located manufacturing facilities makes us the leader in building products. As our Distribution Division's slogan points out: "America Builds on Our Name.™"

RESOURCES

Georgia-Pacific has more than five million acres of timberland under management in North America.

We manage our timberlands to provide wood supplies to our manufacturing operations and to hedge against periodic market disruptions. Our need for fee ownership is reviewed regularly in the light of our requirements to furnish raw materials to our mills.

Early in 1985, Georgia-Pacific agreed to sell 134,000 acres of Douglas fir timber in Oregon to

another forest products company or to exchange them for timberlands of equivalent value. During the year we transferred or exchanged approximately 80,000 acres, with the remainder of the transaction to be completed over the next three years.

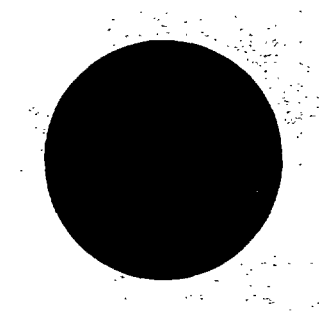
Although we will consider selling additional acreage if such a sale would benefit our shareholders, we have not put large tracts of land on the market. In fact, we have continued to purchase timberlands in close proximity to our manufacturing facilities, when it makes economic sense to do so.

Because our lands are well located and because we have managed them effectively, G-P can still derive good returns by continuing to manage our lands for sustained timber supply to our plants and mills.

Several factors, however, make it unlikely that companies or individuals will accumulate and manage timberlands in the future as they have done in the past.

There will be a devastating impact on the ability of landowners to manage their timber if the tax proposal to end capital

gains treatment for timber, and to require owners to capitalize forest management expenses, is enacted into law. When com-



Timber Resource Base

North America (acres)	
Owned in Private	4,760,000
Controlled	480,000
	5,240,000

bined with the high cost of capital, these provisions would be a disincentive to manage timberlands, encouraging liquidation of existing timber and severely discouraging reforestation.

Before capital gains treatment for timber was adopted in the 1940s, valuable forests in entire regions of the country were decimated. Since that time, forest management programs, encouraged by the tax structure, have helped rebuild our forests and lay the foundation for substantial yield of our renewable

national resource.

The timber industry has relied on the rules for expensing of costs since adoption of the tax laws in 1913, and the capital gains rules since 1944. These rules were enacted because the long-term management of forest resources was viewed by Congress as good economic and social policy that would benefit the entire nation—not merely a single industry. A change at this time is, in effect, a penalty against an industry which has invested billions of dollars relying on these laws.

We feel strongly that our nation certainly will not benefit by a return to the policies of the past and that those policies will penalize an industry that can be an enduring source of economic strength for our nation. We are continuing to manage our timberlands on a long-term basis and hope that the government will not provide a tax environment that discourages us from continuing these long-term programs.

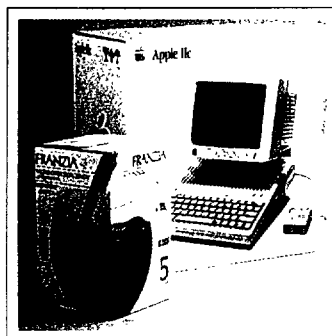
CONTAINER GROWTH

Georgia-Pacific was already a major presence in the forest products industry when it entered the paper business in 1957. Today, G-P has major positions in several paper markets, including corrugated containers and linerboard where we have evolved—in less than five years—from a successful regional operator to a national presence.

During the 1960s and 1970s, we gained a leadership position on the West Coast in the growing market for specialty containers for agribusiness. Building on this foundation, we expanded nationally in 1981 by acquiring nine corrugated container facilities east of the Rockies.

In 1984, Georgia-Pacific added another modern linerboard mill and 16 corrugated container plants, along with supporting timberlands. With this acquisition, we achieved our objective of adding linerboard manufacturing and converting capacity in the East to complement our Western production at Toledo, Oregon. From the newly acquired mill, located at Monticello, Mississippi, we can economically ship liner-

“Our apples travel cross country, and they have to arrive just as they came from the tree. We count on Georgia-Pacific boxes to protect our fruit—and to carry our name, as well.” In addition to their strength, G-P boxes are printed to each customer’s specification.



G-P's Coralure® packaging helps meet our customers' marketing needs.

board throughout central and eastern United States, as well as to export markets. A recent expansion has provided us with sufficient capacity to be a net seller of linerboard and also to supply our own growing container production.

Today, Georgia-Pacific operates 30 corrugated container facilities nationwide. We have grown steadily in production volume. We are among the industry's lowest-cost producers and are expanding our capabilities to take advantage of the higher profit margins available for specialty containers.

Our improving profitability in this sector is attributable to our low-cost production and reputation as a supplier of high-quality packaging. Investments have been

made to assure product quality and to improve cost control, streamlining production and encouraging a team approach at each stage of manufacturing. A program of statistical quality control is being implemented to eliminate downstream quality deterioration.

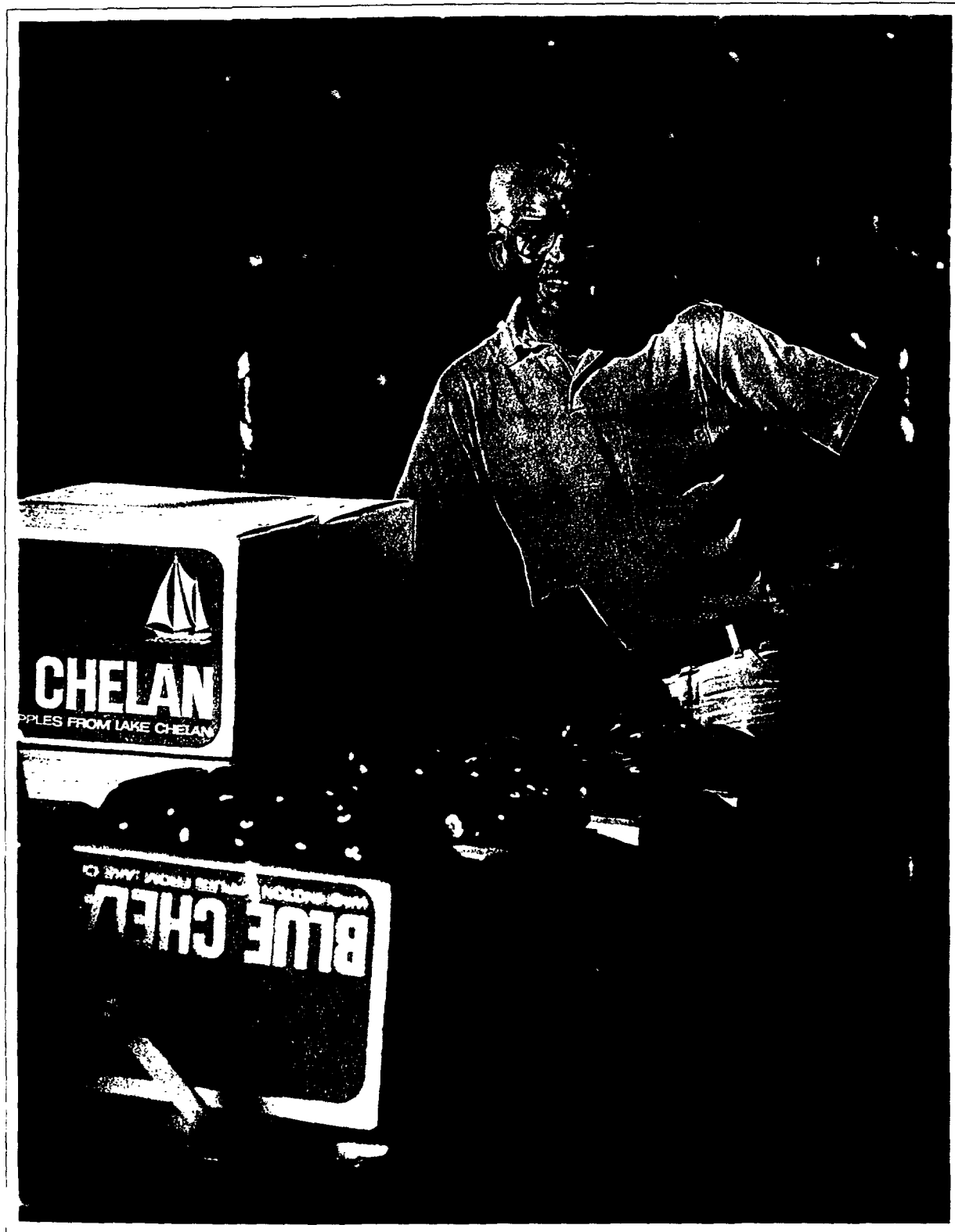
During 1985, we began a \$46 million modernization program of our Container Division to reduce unit labor costs. It included implementation of robotics at three operations, increasing efficiency by eliminating much in-plant material handling. Similar robotic equipment will be installed at our other facilities.

Corrugated Container Plants

- 1961-1980
- 1981-1983
- 1984-

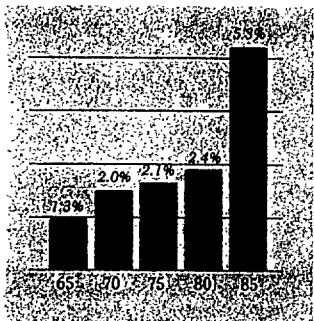


We also added a high-speed, state-of-the-art corrugator at Modesto, California, that can maintain speeds in excess of 850



feet per minute. Container sizes can now be changed to meet customer specifications without slowing the machine.

To improve quality and to develop important new products,



GP's Corrugated Container
Market Share

we recently invested in a research and development testing laboratory to evaluate performance criteria of raw materials as well as new packaging designs. This laboratory will also allow us to enhance performance characteristics of packaging through analysis of coatings and additives.

The container business has been moving forward quickly, with many opportunities to add value and upgrade product lines to more specialized output. For example, today's retail industry demands "consumer friendly" packaging that informs customers

"As a G-P shareholder, I knew my investment was working for me when I found out that an innovative by-product of G-P's papermaking is used as a binder for feed pellets. And when the multiwall bag says G-P, I know the grain and alfalfa pellets will be fresh." Feed for millions of animals is shipped safely in G-P bags.

about the product inside.

A significant value-added dimension to G-P containers is direct printing at the container manufacturing site. Many of our facilities already can process pre-printed linerboard prior to container construction, and two of our Midwest facilities manufacture Coralure® containers, which are lithographed in up to six colors.

Georgia-Pacific is one of the few producers of triple-wall containers, used when extraordinary strength is essential for shipment of large, heavy equipment such as computer main frames or farm equipment. We manufacture triple-wall containers in Ohio and New York, and plan to add that capability in the West.

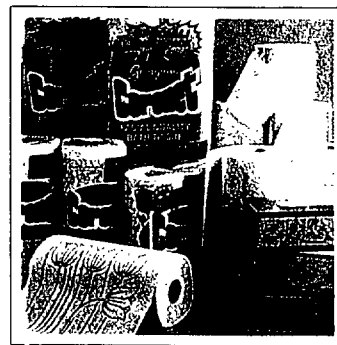
We are also a major producer of laminated bulk boxes. Two double-walled laminated layers provide strength for these large containers which can hold from 500 to 2,000 pounds of materials, including petrochemicals, resins and foods such as peanuts, corn and peas.

Georgia-Pacific has many other specialty products under development to take advantage of growing opportunities for custom and

special-use packaging needs. The container business has excellent potential for future growth in many markets and G-P has the expertise, the production facilities, the momentum and the determination to translate that potential into superior profits and returns for our shareholders.

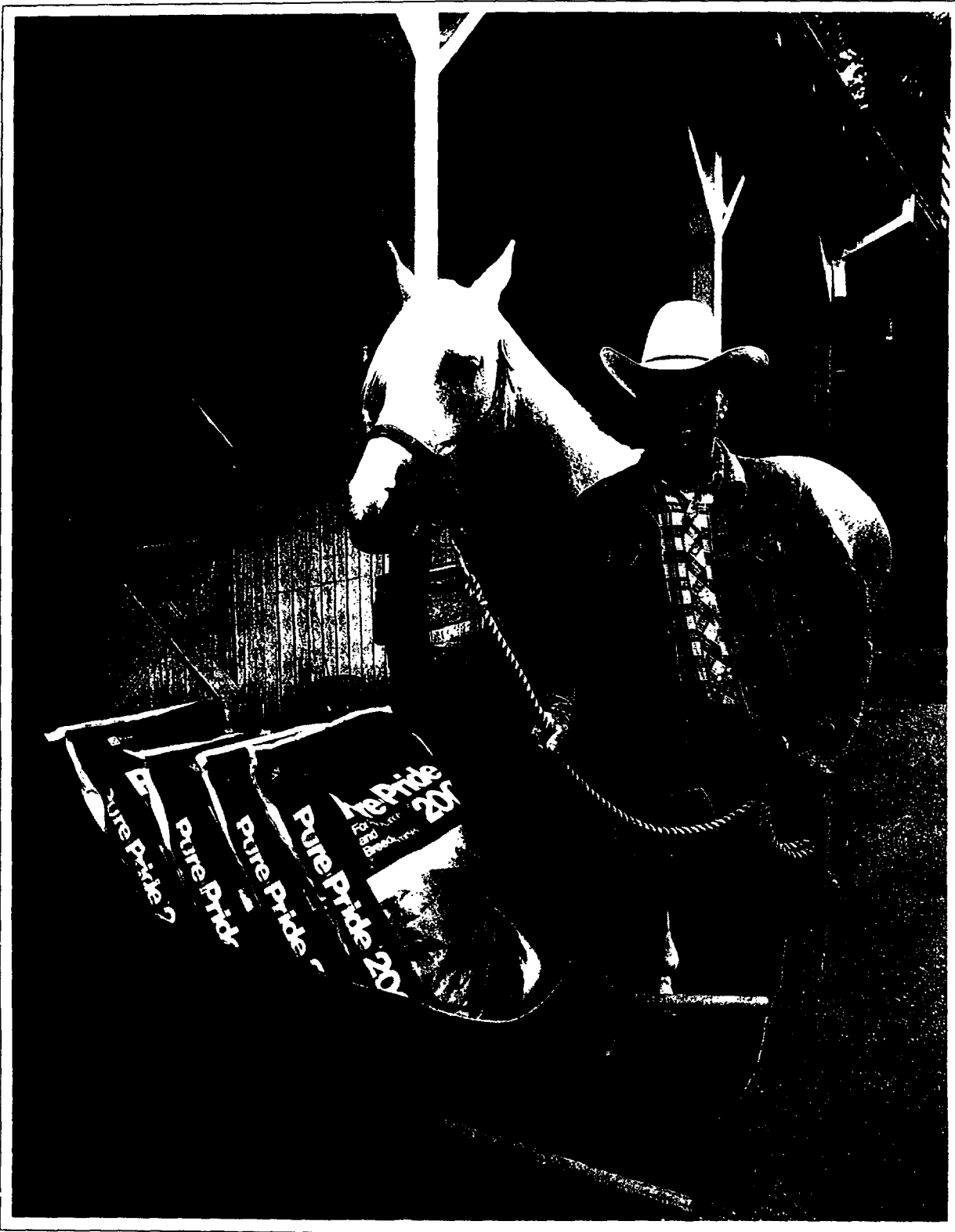
'85 OPERATIONS

Georgia-Pacific continued to establish a firmer foundation for profitable growth in the paper business during 1985. We made progress in upgrading product



G-P ships its rapidly growing Coronet® tissue in G-P containers, one of the ways we strengthen two of our important market groups.

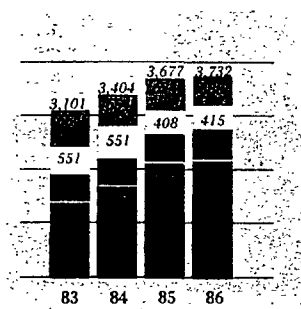
lines for greater profitability, even though the strong U.S. dollar and overcapacity conditions made



1985 a depressed year for the pulp and paper industry.

Our strategy has been to focus on printing and writing papers, linerboard and containers, and tissue, while reducing our exposure to market pulp by maximizing internal uses and by seeking ways to upgrade the pulp we sell to include a greater proportion of specialties. In 1985, for example, we installed equipment for roll pulp at our Bellingham, Washington, sulfite mill, giving us access to the fluff pulp and other specialty markets.

A major upgrade and conversion program at mills in Crossett, Arkansas, and Palatka, Florida, has increased our capacity of



Pulp & Paper Group Growth and Reconfiguration (thousands of tons of capacity)

□ Market Pulp ■ Printing & Fine Paper
 □ Course Kraft ■ Paperboard
 ■ Tissue & Sanitary

"Managing our large and busy office is a big responsibility. We copy thousands of documents every day, and require quality results and a ready supply of paper. When I have a full stock of G-P paper in store, I know I have increased the efficiency of my office, at a reasonable cost."

bleached paper grades and reduced our production of lower-margin unbleached kraft, which is now being made entirely on the more efficient equipment at Palatka. This project was completed during 1985, and our future performance will benefit from it.

The consolidation of all of our Eastern unbleached kraft production at Palatka has been successful. In addition to production efficiencies, we have improved the quality of our products and also focused on the more profitable products such as multiwall bags, which are used for feed, concrete mix and many other products.

One of the world's largest white paper machines is scheduled for completion at our Port Hudson, Louisiana, pulp mill in the spring of 1986. With 650-tons-per-day (tpd) capacity, the machine will allow us to use and add value to thousands of tons of pulp produced each year at that mill.

Our white paper marketing group has been actively developing positions in markets for specialty and technical grades. These sectors will be expanded to fill the space created in our

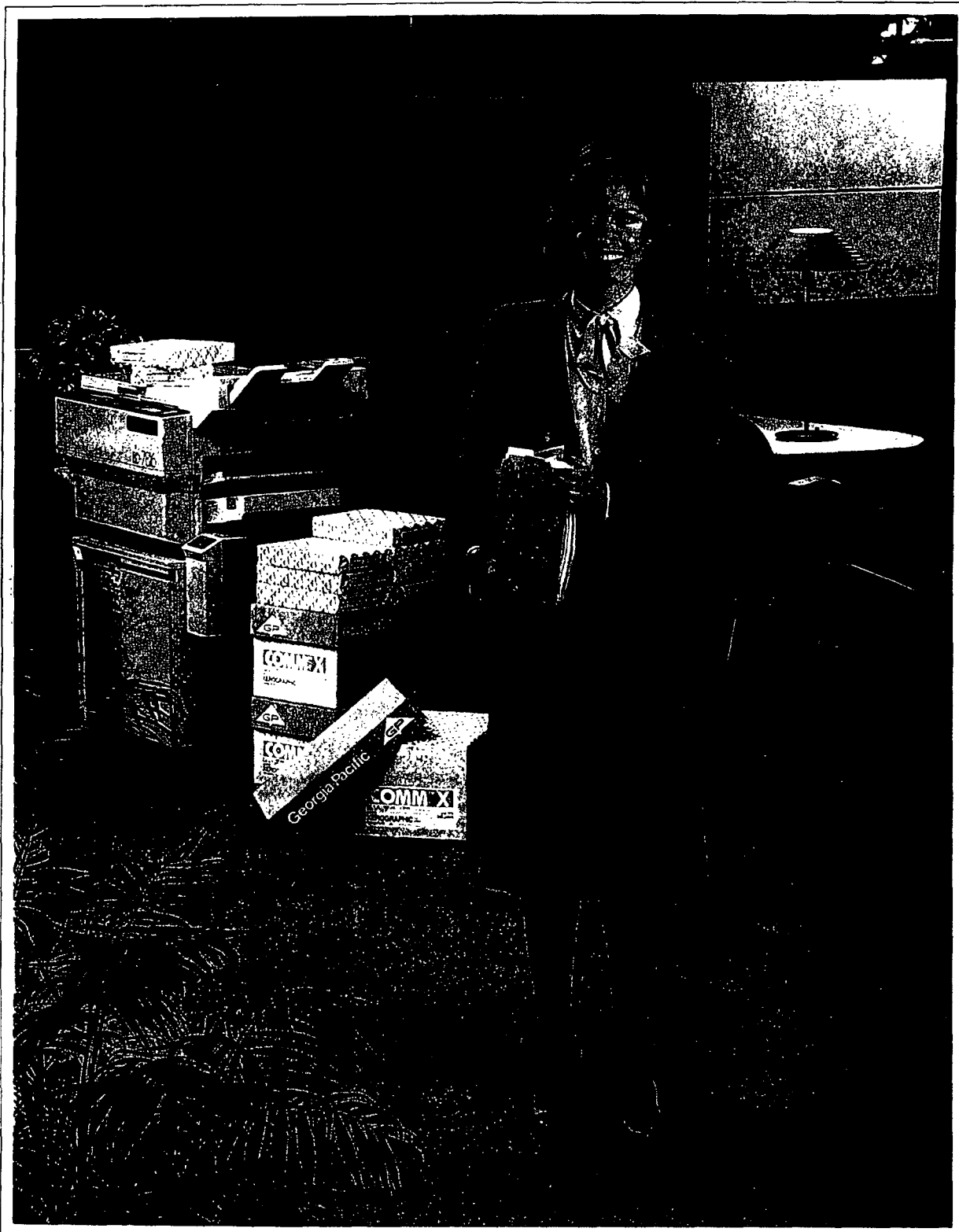


Hopper® printing papers position G-P in the top quality lithograph paper market.

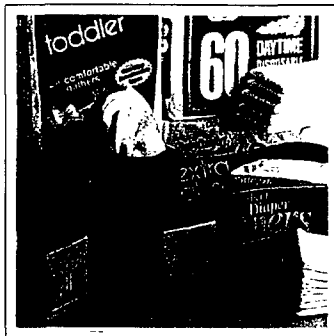
Northern mills by transferring commodity grades to our new cost-effective machines in the South.

We recently completed a rebuild of the kraft paper machine at Monticello, Mississippi, to increase our total linerboard production at that mill to 2,100 tpd from 1,800. The top wire former on the rebuilt machine is one of the first of its kind used to manufacture linerboard in the United States. The advanced design will provide us with superior quality. The increased capacity firmly establishes Georgia-Pacific as a major producer of containerboard, and will support our strong position in corrugated containers.

We continued to expand the market for our brand-name



tissue products such as Coronet[®], Delta[®], MD[®] and Mr. Big[®]. In the commercial tissue sector, we have developed many new major accounts in the food service area, with hospitals and other commercial customers.



Disposable diapers and premoistened towelettes are G-P's newest product line.

We acquired four disposable diaper and premoistened towelette plants, increasing our potential to expand in consumer products through our existing lines of distribution. We have been developing products and strategies to compete as a private-label manufacturer.

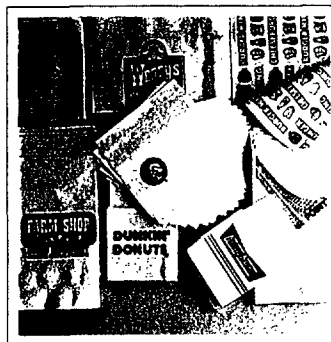
Our pulp by-product chemical business showed improvement again in 1985. We introduced Novasperse[™] (patent pending), an emulsified rosin size that provides easier handling in paper mills.

which has won strong acceptance within the paper industry.

We also began producing a lignosulfonate product marketed under the No-Ox (patent pending) trademark, which can be used with road salt to impede corrosion of bridges and automobiles. Response has been extremely enthusiastic, and the product is currently being used by several state governments to test its effectiveness in actual application.

Despite the current depressed conditions in the paper business, the longer-term outlook for the U.S. industry is bright because of our country's advantages with respect to fiber supply and accessibility of that supply. As a result

G-P's fastest growing paper grades are the commercial tissue products for the fast food industry.



of the capital projects that have been undertaken to improve our facilities, our company will enjoy the advantage of modern, efficient facilities producing higher-margin products. The paper industry is currently undergoing a period of consolidation, and we feel there will be opportunities to benefit our shareholders through acquisitions.

Georgia-Pacific recognizes as its primary economic responsibility the need to improve the return to its shareholders. Since 1982, we have redesigned our framework for establishing financial goals, measuring operating performance, making investment decisions and compensating management in an effort to better focus on the critical problem of

allocating and managing capital. We can create value for our shareholders only when the return generated on the capital we employ is greater than our cost of capital. While this principle represents our primary financial goal, we remain concerned about long-term performance rather than performance in any single year.

ENVIRONMENT

The 1980s have been a challenging period for the U.S. forest products industry. The problems we face as an industry were accentuated by the deep recession and record high interest rates of the early 1980s. Currency exchange disadvantages in export markets and foreign government subsidies to competitors have inhibited performance during the more recent recovery years.

These factors have contributed to an overcapacity situation in our industry which affects the type of growth we can sustain as well as the rate of that growth. The uncertainty of returns has made us apply stringent criteria for investments to expand capacity. The industry has also become increasingly cost-competitive. Since the lowest cost producers will be most successful over the long term, significant

capital investments must be directed towards improving manufacturing efficiencies.

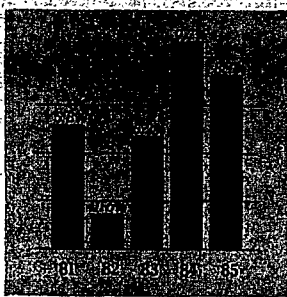
It is apparent that the industry restructuring which has been underway will continue. The depressed earnings levels and low equity prices present today are likely to lead to further consolidation as companies attempt to better position themselves for the future.

We are positioning Georgia-Pacific for the future by focusing on cost reductions and more efficient capital management, in an effort to maximize the cash flows from our operations and revitalize, on a long-term and sustainable basis, the returns on our invested capital. We have also made considerable progress in strengthening our balance sheet, which will enable us to take advantage of attractive acquisition opportunities.

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RETURN ON CAPITAL EMPLOYED

Return on capital employed is our most important performance measure. 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 changes in deferred income taxes and the after-tax effects of unusual items and interest expense. Total capital employed, measured as of the beginning of the year, is defined as the total of common



Return on Capital Employed

shareholders' equity, redeemable preferred stock, deferred income taxes and total debt.

We have made encouraging progress in revitalizing our return on capital employed since 1982. Severely depressed pulp and paper markets caused our return on capital employed to decline in 1985. We continued our program of divesting underperforming assets, however, and also adopted a new management incentive compensation plan which is being implemented in 1986. This compensation plan bases incentive awards on return on capital employed and clearly aligns our managers' goals with the economic interests of our shareholders.

CASH GENERATION

Georgia-Pacific's operations have generated a substantial amount of cash in spite of depressed returns over the last five years, which indicates financial strength. While our reported earnings have fluctuated, cash provided by continuing operations has increased each year since 1981.

Most recently, cash provided by continuing operations in 1985 increased \$262 million (51 percent) from 1984 despite a \$46 million (18 percent) decline in income from

continuing operations.

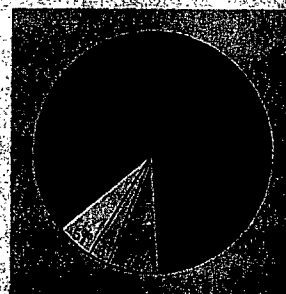
Our cash-generating capacity makes it possible for us to finance a substantial portion of our growth with cash derived from internal sources. Over the past five years, internal sources have accounted for approximately 64 percent of Georgia-Pacific's total sources of cash, with recent periods showing higher



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

■ Cash Provided by Continuing Operations
■ Income from Continuing Operations

percentages from internal sources. The following chart illustrates that cash provided by continuing operations has been our primary internal cash source, supplemented with the proceeds from sales of discontinued operations, including the divestitures of our oil and gas subsidiary in 1985 and our commodity chemicals subsidiary in 1984.



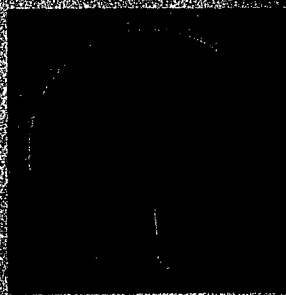
Five-Year Sources of Cash/1981-85 (millions)

Internal Sources	
Continuing Operations	\$2,383
Sales of Discontinued Operations	345
Discontinued Operations	156
Other	230
Total	3,114

External Sources	
Debt Additions	1,717
Stock Issued for Acquisitions	32
Total	1,749

\$4,863

Performance objectives have been established which include incentives for operating managers to reduce costs and manage working capital more efficiently. These incentives reward improvements in cash flow from operations, enabling us to make needed capital investments while maintaining a strong financial position to take advantage of future opportunities.



Five-Year Uses of Cash/1981-85 (millions)

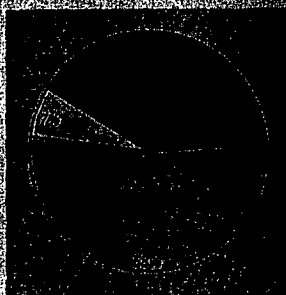
Capital Expenditures	
Property, Plant & Equipment	\$2,356
Acquisition of Hand	30
Total	2,386

Internal Uses	
Dividend Preferred Stock	1,876
Dividends	507
Other	94
Total	2,477

CAPITAL INVESTMENTS

The fundamental economic changes which have taken place in our industry have necessitated significant capital investments for restructuring operations. Over the past five years, Georgia-Pacific made capital expenditures of almost \$2.4 billion, including approximately \$2.0 billion for property, plant and equipment and \$375 million for timber and timberlands. Recent investments in property, plant and equipment have been concentrated in restructuring our pulp and paper segment.

In 1986, we anticipate spending approximately \$550 million on capital projects primarily aimed at reducing our cost structure and upgrading our product lines. Approxi-



Five-Year Capital Expenditures by Industry Segment/1981-85 (millions)

Property, Plant & Equipment	
Building Products	\$1,573
Pulp and Paper	1,257
Timber and Timberlands	151
Corporate and Other	1,981
Total	2,356

mately 60 percent of that amount will be invested in pulp and paper.

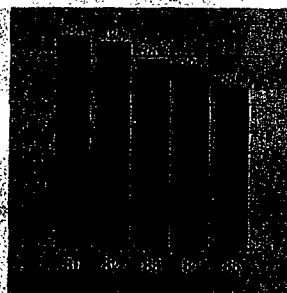
Consistent with our emphasis on cash flow, each major proposed capital project is evaluated by the amount of free

cash flow generated over the life of the investment. We define free cash flow as operating profits after taxes paid and non-cash charges such as depreciation, minus any new investment required. Our definition of new investment includes working capital requirements as well as capital

expenditures. Discounted cash flow techniques are used to calculate the internal rate of return for each project. Our policy is to pursue capital investment opportunities having a projected internal rate of return in excess of our cost of capital.

CAPITAL STRUCTURE

We have a target range of 30 to 35 percent for G-P's total debt-to-capital ratio. This range should ensure access to most major markets for capital and thereby provide the flexibility to take advantage of both internal and external investment opportunities as they arise. We define this ratio as total debt divided by total capital employed as of the end of the year. The following chart illustrates that total debt-to-capital has been reduced to 33 percent from 43 percent since the end of 1981. During that time, total debt has been reduced to \$1.4 billion from \$1.9 billion.



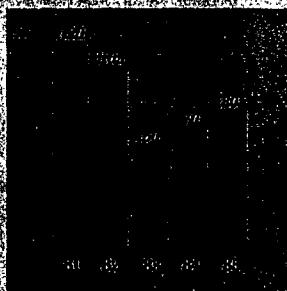
Total Debt-to-Capital

We plan to fund the majority of our operating and capital requirements in 1986 with cash from operations. If external financing is required, debt would probably be used rather than equity due to its lower cost.

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DIVIDENDS

We recognize the importance of dividends in addition to our stock performance as part of the total return to our shareholders. As can be seen in the chart, we reduced dividends late in 1982 in response to depressed earnings levels. Consistent with our guideline of paying approximately one-third of sustainable earnings, dividends were increased in mid-1984 as profitability improved. The amount of future dividends will be determined based on capital needs and other cash requirements and the prospective returns on incremental capital retained in the business. Our



Dividends Declared Per Common Share (amounts in dollars)

objective is to maximize total shareholder returns over the long term.

OTHER SELECTED FINANCIAL RATIOS

In addition to the return on capital employed, we consider the return on common equity to be an important performance measure. As with any single financial ratio, however, the return on common equity conveys a limited amount of information about financial performance. Georgia-Pacific's sales, assets and income levels and capital structure are all interrelated factors which affect return on common equity. The following definitions, ratios and discussion attempt to describe certain of these factors and illustrate their effects on our return on common equity since 1981.

Return on Sales—defined as income from continuing

operations divided by net sales. It is a measure of the profit earned on each sales dollar.

Asset Turnover—defined as net sales divided by total assets, excluding net assets of discontinued operations, as of the beginning of the year. It is a measure of the sales volume generated by the assets employed during the year.

Return on Assets—defined as return on sales multiplied by asset turnover or, alternatively, income from continuing operations divided by total assets, excluding net assets of discontinued operations, as of the beginning of the year. It is a measure of the profit generated by the assets

employed during the year. Return on assets can be improved by increasing either return on sales or asset turnover.

Assets-to-Common Equity—defined as total assets, excluding net assets of discontinued operations, divided by common shareholders' equity, both measured as of the beginning of the year. It is a measure of financial leverage, or the degree to which we use borrowed money to finance our assets. Increases in financial leverage will increase return on common equity when earnings are sufficient to cover the cost of borrowed money.

Return on Common Equity—defined as return on assets multiplied by the assets-to-common equity ratio or, alternatively, income from continuing operations divided by common shareholders' equity as of the beginning of the year. It is a measure of the profit generated on our shareholders' investment.

Return on Common Equity Analysis

	1985	1984	1983	1982	1981
Return on Sales	3.08%	3.79%	1.24%	0.40%	1.79%
Asset Turnover	1.45	1.64	1.42	1.19	1.31
Return on Assets	4.47%	6.20%	1.76%	0.47%	2.35%
Assets-to-Common Equity Ratio	2.27	2.03	2.15	2.19	1.97
Return on Common Equity	10.2%	12.6%	3.8%	1.0%	4.6%

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Despite lower earnings caused by weak markets in our pulp and paper segment, cash provided by continuing operations increased 51 percent in 1985 to \$771 million from \$509 million in 1984. Significant reductions of receivables and inventory levels contributed to this improvement. Cash flow from continuing operations was supplemented with proceeds from sales of discontinued operations and available financing sources, when appropriate, in order to fund capital expenditures of \$642 million, net retirements of debt and preferred stock of \$169 million and dividend payments of \$94 million.

Georgia-Pacific's capacity to generate funds internally, together with committed lines of credit and other available financing sources, is adequate to finance growth and meet our operating and liquidity needs for the foreseeable future. At the end of 1985, our existing domestic, foreign

and regional bank lines of credit amounted to \$700 million, of which approximately \$247 million was being used to support commercial paper and master note borrowings. Also at December 31, 1985, we had \$250 million of debt securities registered for sale with the Securities and Exchange Commission under a shelf registration statement. The Corporation has maintained this approximate level of registered but unsold debt securities since 1983 to enable us to react quickly to acquisition opportunities and favorable market conditions for restructuring existing debt.

In April 1985, the Corporation accepted tenders for approximately \$40 million of its redeemable preferred stock, including 828,333 Series A shares and 191,946 Series B shares at \$39 per share. We expect to complete the next scheduled purchase of 1,288,942 shares of our redeemable preferred stock at \$39 per share on April 1,



Return on Common Equity

1986. This \$50 million purchase is expected to be financed initially with short-term borrowings.

In June 1985, the Corporation issued \$195 million face amount of dual serial discount debentures, including \$70 million of zero coupon debentures and \$125 million of discount term debentures. The zero coupon debentures mature in one to five years and have effective interest rates ranging from 8.55% to 10.30%. The discount term debentures mature in thirty years, bearing no interest for the first five years and interest at 11.30% thereafter. The transaction was structured in this manner to obtain a lower overall effective interest cost than could have been obtained through a conventional \$125 million thirty-year bond issue. The net proceeds were applied toward the early retirement of \$150 million of 8 1/4% term loans which had an effective interest cost of 10.31% due to compensating balance requirements and were due in varying installments through 1988.

Also during 1985, approximately \$22 million of pollution control revenue bonds were issued on behalf of the Corporation to finance the acquisition and construction of certain pollution control facilities and to refinance existing pollution control revenue bonds.

In 1984, we announced plans to dispose of certain lines of business, including all of our commodity chemicals and oil and gas operations. These dispositions were completed in the first quarter of 1986 with the sale of our expandable polystyrene plant in Panesville, Ohio. During 1985, we completed the sales of our Polymer, Inc. subsidiary, whose principal asset was a color concentrate plant in Farmingdale, New York, and our Exchange Oil & Gas Corporation subsidiary (Exchange). Exchange was sold to Transco Energy Company in September 1985 for approximately \$145 million, a lower price than had originally been anticipated due primarily to adverse conditions in natural gas markets. As a result, an additional \$30 million after-tax loss from the sale was recorded in the 1985 third quarter. After adjusting for cash received from Exchange prior to the sale, net cash proceeds were approximately \$136 million.

Total capital expenditures in 1985 of \$642 million were below the 1984 level of \$710 million. The 1984 amount, however, includes approximately \$308 million related to a major acquisition. Acquisitions of timber and timberlands amounted to \$23 million in 1985, with an additional \$619 million spent on property, plant and equipment.

We are projecting capital expenditures of approximately \$550 million in 1986.

Approximately 68 percent of capital expenditures in 1985 were in the pulp and paper segment. Other than the acquisition of four diaper manufacturing plants in September 1985, the majority of capital expenditures in pulp and paper were for profit improvement programs at existing facilities, including:

- Continuation of a project to upgrade the product line at our Port Hudson, Louisiana, facility, which is expected to be completed in mid-1986. This project will increase our white paper production and reduce production of market pulp.
- Completion of major equipment conversion programs at the Palatka, Florida, and Crossett, Arkansas, paper mills which increased production capacity for more profitable bleached grades.
- Completion of a major equipment conversion program at our Monticello, Mississippi, facility which increased linerboard capacity and reduced production of less profitable grades.

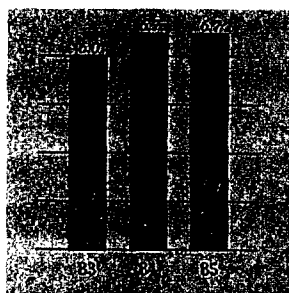
Investments in the building products segment represented approximately 26 percent of total capital expenditures in 1985. The majority of these investments were directed toward reducing manufacturing costs and waste and shifting production to higher-margin products. We completed the construction of two large oriented strand board plants in Grenada, Mississippi, and Skippers, Virginia, enabling us to further shift plywood production to more profitable specialty grades. Both plants will be in full production during most of 1986.

In March 1985 we entered into an agreement to sell or exchange approximately 134,000 acres of Oregon timberlands to Weyerhaeuser Company from time to time over a three-year period ending April 1, 1988. We sold a portion of the timberlands under this agreement in the 1985 first quarter, resulting in a \$19 million pre-tax gain.

At the end of 1985, working capital was \$591 million and the current ratio, defined as current assets divided by current liabilities, was 1.8 to 1, compared to their 1984 levels of \$732 million and 2.1 to 1, respectively. This decline in working capital is primarily attributable to lower receivables and inventory levels at the end of 1985. The total debt-to-capital ratio was 33 percent at the end of 1985, down from its 1984 level of 36 percent, and within our target range of 30 to 35 percent.

1985 COMPARED WITH 1984

Georgia-Pacific's consolidated net sales were \$6.7 billion for both 1985 and 1984. Income from continuing operations decreased to \$207 million (\$1.83 per share on



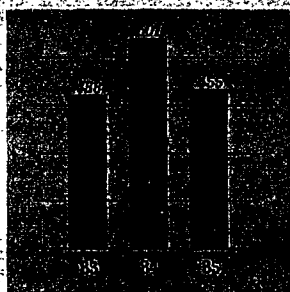
Sales by Industry Segment (billions of dollars)

■ Building Products
■ Pulp & Paper ■ Other

a primary basis) in 1985 from \$253 million (\$2.28 per share) in 1984. A \$30 million loss from discontinued operations, which was partially offset by a \$10 million extraordinary gain from settlement of a condemnation suit, lowered 1985 net income to \$187 million (\$1.64 per share).

A \$134 million loss from discontinued operations in 1984 lowered net income in that year to \$119 million (97 cents per share).

The results of continuing operations include a \$19 million pre-tax gain on the sale of certain Oregon timberlands in 1985 and a \$19 million pre-tax gain on the sale of the Georgia-Pacific building in Portland, Oregon, in 1984. These gains have been reported as "Unusual items" in our financial statements and excluded from segment operating results.



Operating Profits by Industry Segment (millions of dollars)

■ Building Products
■ Pulp & Paper ■ Other

A court-approved settlement has been reached in a condemnation suit over the value of certain lands acquired by the Federal government. Pursuant to this settlement, Georgia-Pacific expects to receive approximately \$14 million. A \$10 million extraordinary gain, net of related income taxes of \$4 million, was recorded in the 1985 fourth quarter.

The remaining discussion refers to the "Industry Segment Information" presented in Note 5:

Sales in our building products segment were \$4.5 billion for both 1985 and 1984. Operating profits increased to \$391 million in 1985 from \$339 million in 1984, as

the return on sales improved to 8.7 percent from 8.5 percent. The improved results were achieved despite lower average prices for lumber and plywood sheathing in 1985.

Competition from low-cost Canadian lumber imports and excess industry capacity in plywood sheathing markets held prices below levels historically experienced with similar levels of demand. Reductions in Georgia-Pacific's fiber and conversion costs and strong gypsum markets helped offset the effects of these pricing conditions. Gypsum operations were this segment's most profitable in 1985, although average prices for the year were slightly lower than in 1984. For 1986, housing starts are expected to be comparable to 1985 levels. While we expect the competitive nature of the lumber and plywood businesses to be relatively unchanged, the market acceptance of new structural panel products such as oriented strand board and waferboard should continue to grow. We also plan to continue our expansion into the remodeling market, which tends to be more stable than new residential housing.

Our pulp and paper segment reported a 1.0 percent sales increase to \$2.1 billion in 1985, reflecting a full-year contribution from the linerboard, kraft paper and corrugated container operations obtained through an acquisition in mid-1984. Operating profits declined sharply in 1985 to \$29 million from \$202 million in 1984, as the return on sales fell to 1.4 percent from 9.6 percent. A strong U.S. dollar and excess worldwide pulp capacity made U.S. products less competitive overseas and caused an accumulation of domestic inventories, resulting in lower prices for a number of this segment's major products. Average prices for pulp, linerboard, kraft paper and printing papers were all below 1984 average price levels. Tissue was the only major product for which average prices improved in 1985 as compared to 1984. The 1985 pulp and paper results were also affected by lost production time caused by a strike at our Crossett, Arkansas, pulp and paper mill during most of the third quarter and major equipment conversion projects at several mills, particularly in the fourth quarter. A \$12 million operating loss was reported in the 1985 fourth quarter on sales which were 23 percent below the fourth quarter of 1984. We expect the difficult market

conditions in pulp and paper to continue at least in early 1986, although some improvement is foreseen in pulp, linerboard and corrugated container markets. This segment is expected to benefit from the major equipment conversion projects completed during 1985.

General corporate charges decreased to \$33 million in 1985 from \$68 million in 1984. Much of this reduction is attributable to interest and dividend income on the debentures and preferred stock obtained from the sale of

our commodity chemicals operations in December 1984.

Interest expense declined to \$132 million in 1985 from \$156 million in 1984. This reduction is primarily attributable to increased capitalization of interest as a result of our large capital expenditures program in 1985. Our total interest costs of \$162 million in 1985 were slightly lower than the 1984 level of \$167 million.

For a discussion of "Income Taxes" and the "Effects of Inflation," see Notes 10 and 16.

1984 COMPARED WITH 1983

Georgia-Pacific's consolidated net sales were \$6.7 billion in 1984, an increase of 11 percent over 1983 net sales of \$6.0 billion. Income from continuing operations increased to \$253 million in 1984 (\$2.28 per share on a primary basis) from \$75 million in 1983 (53 cents per share). After recognition of a \$134 million loss from discontinued operations, the Corporation reported net income of \$119 million in 1984. Net income of \$105 million in 1983 included income from discontinued operations of \$30 million.

Included in the 1984 results of continuing operations was a \$19 million pre-tax gain on the sale of the Georgia-Pacific building in Portland, Oregon. The 1983 results of continuing operations include a pre-tax charge of \$135 million for asset disposals and write-downs to net realizable value. Excluding these unusual items, pre-tax income from continuing operations increased 56 percent in 1984 to \$377 million from \$242 million in 1983.

The remaining discussion refers to the "Industry Segment Information" presented in Note 5:

Sales in the building products segment increased 7.0 percent to \$4.5 billion in 1984 from \$4.1 billion in 1983. Operating profits increased also, to \$379 million in 1984 from \$354 million in 1983. The segment's performance benefited from strong housing construction in the first half

of 1984, as well as improved technologies at our wood products facilities. Gypsum sales were strong throughout 1984 and helped offset soft prices for lumber, which were adversely affected by Canadian lumber imports, and soft plywood sheathing prices caused in part by excess industry capacity. Sales to the remodeling market exceeded new residential construction sales.

The pulp and paper segment reported significantly higher sales and operating profits in 1984. Sales increased 19 percent to \$2.1 billion in 1984 from \$1.8 billion in 1983. Operating profits of \$202 million were almost three times higher than the 1983 level of \$71 million. The 1984 results include an approximate six-month contribution from the linerboard, kraft paper and corrugated container operations acquired at mid-year. Prices increased during 1984 for market pulp, printing and writing papers, kraft, linerboard and corrugated containers, although some markets began to soften after mid-year with the slow-down in the economy. The impact of a strong U.S. dollar on export markets, which put domestic producers at a competitive disadvantage compared to foreign competitors, and rising pulp inventories in domestic markets caused market pulp prices to decline in the second half of 1984.

For a discussion of "Income Taxes" and the "Effects of Inflation," see Notes 10 and 16.

STATEMENTS OF INCOME

(Millions, except per share amounts)	Year ended December 31		
	1985	1984	1983
Net sales	\$6,716	\$6,682	\$6,040
Costs and expenses			
Cost of sales	5,553	5,441	4,978
Selling, general and administrative	431	426	374
Depreciation and depletion	310	282	289
Interest	132	156	157
	6,426	6,305	5,798
Income from continuing operations before unusual items, income taxes and extraordinary item	290	377	242
Unusual items	19	19	(135)
Income from continuing operations before income taxes and extraordinary item	309	396	107
Provision for income taxes	102	143	32
Income from continuing operations before extraordinary item	207	253	75
Discontinued operations			
Operating income, net of taxes	-	26	30
(Loss) on disposal, net of taxes	(30)	(160)	-
Income (loss) from discontinued operations	(30)	(134)	30
Income before extraordinary item	177	119	105
Settlement of condemnation suit, net of taxes	10	-	-
Net income	\$ 187	\$ 119	\$ 105
Per common share - primary			
Income from continuing operations before extraordinary item	\$ 1.83	\$ 2.28	\$ 1.53
Income (loss) from discontinued operations	(.29)	(1.31)	.29
Income before extraordinary item	1.54	.97	.82
Settlement of condemnation suit	.10	-	-
Net income	\$ 1.64	\$.97	\$.82
Per common share - fully diluted			
Income from continuing operations before extraordinary item	\$ 1.80	\$ 2.24	\$ 1.54
Income (loss) from discontinued operations	(.28)	(1.27)	.28
Income before extraordinary item	1.52	.97	.82
Settlement of condemnation suit	.09	-	-
Net income	\$ 1.61	\$.97	\$.82

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Millions)	Year ended December 31		
	1985	1984	1983
Cash provided by (used for) continuing operations			
Income from continuing operations before extraordinary items	\$207	\$253	\$ 75
Items in income not affecting cash			
Depreciation	270	247	238
Depletion	40	35	51
Deferred income taxes	84	90	3
Unusual items	—	—	135
	601	625	502
Cash provided by (used for) working capital			
Receivables	86	(86)	(31)
Inventories	64	(61)	(27)
Prepaid expenses	(9)	2	2
Accounts payable and accrued liabilities	29	29	14
	170	(116)	(42)
Cash provided by continuing operations	771	509	460
Cash provided by discontinued operations	117	291	28
Cash provided by (used for) extraordinary items			
Settlement of condemnation suit, net of taxes	10	—	—
Items in condemnation settlement not affecting cash	(10)	—	—
Payment of litigation settlement	—	—	(94)
Cash (used for) extraordinary items	—	—	(94)
Cash provided by (used for) financing activities			
Repayments of long-term debt	(481)	(375)	(255)
Additions to long-term debt	358	312	152
Net (decrease) in commercial paper and short-term notes	(6)	—	(85)
Preferred stock purchase offer	(40)	(32)	—
Cash (used for) financing activities	(169)	(95)	(188)
Cash provided by (used for) investment activities			
Capital expenditures			
Property, plant and equipment	(619)	(575)	(126)
Timber and timberlands	(23)	(135)	(62)
	(642)	(710)	(188)
Asset retirements	32	62	12
Other	11	22	53
Cash (used for) investment activities	(599)	(626)	(123)
Cash dividends paid	(94)	(86)	(76)
Increase (decrease) in cash	26	(7)	7
Balance at beginning of year	36	43	36
Balance at end of year	\$ 62	\$ 36	\$ 43

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

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BALANCE SHEETS

(Millions, except shares and per share amounts)

Assets	December 31	
	1985	1984
Current assets		
Cash	\$ 62	\$ 36
Receivables, less allowances of \$19 and \$15	569	655
Inventories	634	698
Prepaid expenses	26	17
	1,291	1,406
Timber and timberlands, net	804	840
Property, plant and equipment		
Land, buildings, machinery and equipment, at cost	4,741	4,272
Accumulated depreciation	(2,135)	(2,002)
	2,606	2,270
Net assets of discontinued operations	11	158
Other assets	154	111
	\$4,866	\$4,785
Liabilities and Shareholders' Equity		
Current liabilities		
Commercial paper and other short-term notes	\$ 104	\$ 110
Current portion of long-term debt	41	38
Accounts payable	276	259
Accrued compensation	82	83
Accrued interest	38	42
Other current liabilities	159	142
	700	674
Long-term debt, excluding current portion	1,257	1,383
Deferred income taxes	606	503
Redeemable preferred stock		
Adjustable rate convertible preferred stock, without par value, authorized 10,000,000 shares (involuntary liquidating value \$39.00 per share)	156	190
Common shareholders' equity		
Common stock, par value \$.80; authorized 150,000,000 shares; 104,368,000 and 104,115,000 shares issued	83	83
Additional paid-in capital	1,004	999
Retained earnings	1,114	1,029
Less—Common stock held in treasury, at cost; 1,143,000 and 1,589,000 shares	(35)	(49)
Accumulated translation adjustments	(19)	(27)
	2,147	2,035
	\$4,866	\$4,785

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

STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

(Millions, except shares)			Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Translation Adjustments
Common Stock Shares Issued	Treasury							
103,289,000	1,953,000	Balance at December 31, 1982	\$1,989	\$83	\$ 989	\$ 978	\$(61)	\$ —
		Cumulative effect of change in accounting for foreign currency translation	(13)	—	—	—	—	(13)
		Net income	105	—	—	105	—	—
		Cash dividends declared						
		Common stock	(61)	—	—	(61)	—	—
		Preferred stock	(15)	—	—	(15)	—	—
	(124,000)	Common stock issued	4	—	—	—	4	—
		Translation adjustments	10	—	—	—	—	10
55,000		Other	(6)	—	—	(6)	—	—
103,344,000	1,829,000	Balance at December 31, 1983	2,013	83	989	1,001	(57)	(3)
		Net income	119	—	—	119	—	—
		Cash dividends declared						
		Common stock	(72)	—	—	(72)	—	—
		Preferred stock	(13)	—	—	(13)	—	—
	(240,000)	Common stock issued	6	—	(2)	—	8	—
771,000		Employee stock purchase plan	12	—	12	—	—	—
		Translation adjustments	(24)	—	—	—	—	(24)
		Other	(6)	—	—	(6)	—	—
104,115,000	1,589,000	Balance at December 31, 1984	2,035	83	999	1,029	(49)	(27)
		Net income	187	—	—	187	—	—
		Cash dividends declared						
		Common stock	(82)	—	—	(82)	—	—
		Preferred stock	(11)	—	—	(11)	—	—
	(446,000)	Common stock issued	11	—	—	(3)	14	—
253,000		Employee stock purchase plan	5	—	5	—	—	—
		Translation adjustments	8	—	—	—	—	8
		Other	(6)	—	—	(6)	—	—
104,368,000	1,143,000	Balance at December 31, 1985	\$2,147	\$83	\$1,004	\$1,114	\$(35)	\$(19)

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). The investment in GA-MET (Note 14) is accounted for by the equity method. All significant intercompany balances and transactions are eliminated in consolidation.

Income Per Share of Common Stock.

Primary income per share of common stock has been computed based on the weighted average number of shares outstanding, assuming conversion of convertible preferred stock, when dilutive, and issuance of shares

under dilutive stock option and stock purchase plans. Fully diluted income per share of common stock, in addition, assumes conversion of the convertible subordinated debentures, when dilutive. The average number of shares used in the income per share computations for 1985, 1984 and 1983, respectively, were 103,432,000, 102,293,000 and 101,926,000 for primary and 106,550,000, 105,336,000 and 105,562,000 for fully diluted.



Fully Diluted Income Per Common Share (amounts in dollars)
Income from continuing operations before extraordinary items and accounting change

Inventory Valuation.

Inventories are valued at the lower of cost or market.

Inventory costs include costs of materials, labor and plant overhead. The major classes of inventories were as follows:

(Millions)	December 31	
	1985	1984
Inventories at average cost		
Raw materials	\$189	\$235
Finished goods	477	523
Supplies	73	74
	739	832
Excess of average cost over LIFO	(105)	(134)
Total inventories	\$634	\$698

The last-in, first-out (LIFO) dollar value pool method of inventory valuation is utilized for the majority of inventories

at manufacturing facilities and the Corporation's manufactured inventories located at its building products distribution centers. The average cost method is used for all other inventories. Inventories valued using the LIFO method represented approximately 52% and 46%, respectively, of total inventories at December 31, 1985 and 1984.

Effective January 1, 1985, the Corporation realigned its LIFO inventory pools to correspond to natural business units rather than divisional product groups. Management believes this pooling change will minimize the impact of price level changes on inventory valuations, thereby achieving a better matching of costs and revenues. The effect of this change on the accompanying financial statements was not material.

Property.

Property 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 retired. Maintenance, repairs and replacements of minor units of property are charged to expense as incurred.

Provisions for depreciation of buildings, machinery and equipment are computed using 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%. Effective January 1, 1985, certain manufacturing facilities which previously used the units-of-production method of depreciation were retroactively converted to the straight-line method to conform with the Corporation's other operations. The effect of this change on the accompanying financial statements was not material.

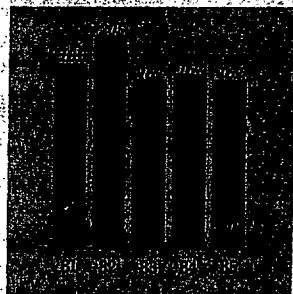
No gain or loss is recognized on normal property dispositions; property cost is credited to the property accounts and charged to the accumulated depreciation accounts and any proceeds are credited to the accumulated depreciation accounts. When there are abnormal dispositions of property, the cost and related depreciation amounts are

removed from the accounts and any gain or loss is reflected in income.

The Corporation amortizes its timber costs over the total fiber that will be available during the estimated growth cycle. Timber carrying costs are expensed as incurred.

The Corporation capitalizes interest on projects where 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



Interest Capitalized and Expensed (millions of dollars)

■ Interest Expense
■ Capitalized Interest

resulting from the facilities. Interest capitalized and expensed was as follows:

(Millions)	Year ended December 31		
	1985	1984	1983
Total interest costs	\$162	\$167	\$162
Interest costs capitalized	(30)	(11)	(5)
Interest expense	\$132	\$156	\$157

The Corporation defers net operating costs on new construction projects during the start-up phase and amortizes the deferral over five years. The amounts deferred, which were not material in 1985, 1984 and 1983, are included in the property, plant and equipment accounts.

Reclassifications

Certain amounts have been reclassified in 1984 and 1983 to conform with the 1985 presentation.

NOTE 2. UNUSUAL ITEMS

The Corporation has experienced certain events over the last three years which are considered to be unusual items. A summary of these items is as follows:

(Millions)	Year ended December 31		
	1985	1984	1983
Sale of timberlands	\$19	\$	\$
Sale of Portland office building	\$	\$19	\$
Facility disposals and asset write-downs	\$	\$	\$(135)
	\$19	\$19	\$(135)

The Corporation has an agreement with an unrelated third party to sell or exchange approximately 134,000 acres of Oregon timberlands from time to time over a three-year period ending April 1, 1988. A pre-tax gain of \$19 million

was recorded in 1985 from the sale of a portion of the timberlands under this agreement.

The Georgia-Pacific building in Portland, Oregon, owned by GA-MET, a joint venture in which the Corporation has a 50% ownership interest, was sold in 1984. The Corporation recorded a pre-tax gain of \$19 million from this transaction.

The Corporation's management made a series of decisions to eliminate, withdraw from or sell certain operations and redeploy company resources in areas having better prospects for future profitability. During 1983, the Corporation expensed approximately \$135 million for asset disposals and write-downs of certain facilities to net realizable value

NOTE 3. EXTRAORDINARY ITEM

In 1975, the Corporation filed a condemnation suit alleging that it had been insufficiently compensated for certain lands in southwestern West Virginia that the U.S. Army Corps of Engineers acquired through the Federal government's power of eminent domain for the R.D. Bailey Lake Project. Pursuant to a court-approved settlement entered on December 3, 1985, the Corporation will receive approx-

imately \$14 million. The Corporation expects to receive the settlement amount, plus interest from November 22, 1985, during the first quarter of 1986. A \$10 million extraordinary gain from this settlement, net of related income taxes of \$4 million, was recorded in the fourth quarter of 1985.

NOTE 4. DISCONTINUED OPERATIONS

The Corporation has disposed of certain lines of business, including all of its commodity chemicals and oil and gas operations, and has reported these dispositions as discontinued operations. The Corporation recorded an estimated loss on disposal of discontinued operations of \$160 million, net of related income tax benefits of \$137 million, in the fourth quarter of 1984.

In December 1984, the Corporation sold 100% of the outstanding common stock of its commodity chemicals subsidiary, Georgia-Pacific Chemicals, Inc., to the executive group managing that business. Under the terms of the agreement, the Corporation received \$192 million in cash plus debt, preferred stock and warrants which had an estimated value of \$70 million.

In September 1985, the Corporation sold 100% of the outstanding common stock of its Exchange Oil & Gas Corporation subsidiary (Exchange) to an unrelated third party for \$145 million. The net cash to the Corporation, after adjusting for cash received from Exchange prior to the sale, totaled approximately \$136 million. An additional \$30 million loss on the sale, net of related income tax benefits of \$14 million, was recorded in the third quarter of 1985.

At the end of 1985, the Corporation had disposed of all

discontinued operations except for an expandable polystyrene plant in Painesville, Ohio, which was sold in the first quarter of 1986. The net assets of discontinued operations are disclosed in a separate caption in the accompanying Balance Sheets and consist of the following:

	December 31	
	1985	1984
Current assets	\$ 4	\$ 55
Natural resources, net	—	153
Property, plant and equipment, net	8	78
	12	286
Current liabilities	1	34
Deferred income taxes (benefit)	(3)	61
	14	191
Write-down to net realizable value	(3)	(33)
Net assets of discontinued operations	\$11	\$158

The operating results of the discontinued chemical businesses, net of related income taxes of \$14 million in 1984 and \$13 million in 1983, based on the Corporation's overall effective tax rate, are set forth separately in the accompanying Statements of Income under the caption "Discontinued operations: Operating income, net of taxes." Net sales of discontinued operations amounted to \$446 million in 1984 and \$429 million in 1983.

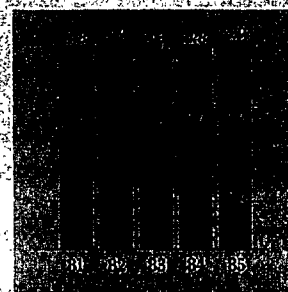
NOTE 5. INDUSTRY SEGMENT INFORMATION

The Corporation's primary operations are reported in two industry segments: (1) Building products, which includes the manufacture and distribution of structural panels (plywood, particleboard, oriented strand board, waferboard, etc.), lumber, gypsum, roofing, formaldehyde and thermosetting resins; and, (2) Pulp and paper, which includes the manufacture and distribution of containers and packaging (linerboard, kraft paper, corrugated boxes, etc.), printing and fine papers, tissue, market pulp and pulp mill by-product chemicals.

Certain industry segment information for the years 1983 through 1985 is presented on the following page. The Corporation's sales to foreign markets represented less than 10% of total sales to unaffiliated customers in each of those years. No single customer accounted for more than 10% of total sales to unaffiliated customers

in any year during that period.

The Corporation recorded write-downs of certain assets to net realizable value of \$135 million in 1983 (Note 2). These amounts have not been included in segment operating profits but are reported as unusual items. If these write-downs had been included in the segment detail, operating profits in 1983 would have been reduced by \$77 million in the building products segment and \$58 million in the pulp and paper segment.



Assets by Industry Segment
(billions of dollars)

- Building Products
- Pulp & Paper
- Other

(Millions)	Sales to Unaffiliated Customers	Inter- segment Sales	Total Revenues	Operating Profits (Losses)	Depreciation and Depletion	Capital Expenditures	Assets
Year ended December 31, 1985							
Building products	\$4,470	\$ 44	\$4,514	\$391	\$145	\$164	\$1,623
Pulp and paper	2,134	65	2,199	29	149	435	2,175
Other operations	112	—	112	35	7	7	71
	6,716	109	6,825	455	301	606	3,869
Eliminations and adjustments							
Intersegment sales		(109)	(109)	—	—	—	—
Timber and timberlands		—	—	—	—	23	803
Unusual items (Note 2)		—	—	19	—	—	—
General corporate		—	—	(33)	9	13	183
Interest expense		—	—	(132)	—	—	—
Income taxes		—	—	(102)	—	—	—
Continuing operations	6,716	—	6,716	207	310	642	4,855
Discontinued operations, net		—	—	(30)	—	—	11
Settlement of condemnation suit, net		—	—	10	—	—	—
Total	\$6,716	\$ —	\$6,716	\$187	\$310	\$642	\$4,866
Year ended December 31, 1984							
Building products	\$4,452	\$ 44	\$4,496	\$379	\$144	\$137	\$1,535
Pulp and paper	2,111	52	2,163	202	123	402	1,982
Other operations	119	6	125	20	6	7	80
	6,682	102	6,784	601	273	546	3,597
Eliminations and adjustments							
Intersegment sales		(240)	(240)	—	—	—	—
Timber and timberlands		—	—	—	—	135	840
Unusual items (Note 2)		—	—	19	—	—	—
General corporate		—	—	(68)	9	29	190
Interest expense		—	—	(156)	—	—	—
Income taxes		—	—	(143)	—	—	—
Continuing operations	6,682	(138)	6,544	253	282	710	4,627
Discontinued operations, net	446	138	584	(134)	79	33	158
Total	\$7,128	\$ —	\$7,128	\$119	\$361	\$743	\$4,785
Year ended December 31, 1983							
Building products	\$4,143	\$ 37	\$4,180	\$354	\$168	\$ 60	\$1,467
Pulp and paper	1,768	50	1,818	71	112	51	1,572
Other operations	429	7	436	13	3	5	90
	6,040	94	6,134	438	283	116	3,129
Eliminations and adjustments							
Intersegment sales		(165)	(165)	—	—	—	—
Timber and timberlands		—	—	—	—	62	753
Unusual items (Note 2)		—	—	(135)	—	—	—
General corporate		—	—	(39)	6	10	197
Interest expense		—	—	(157)	—	—	—
Income taxes		—	—	(32)	—	—	—
Continuing operations	6,040	(71)	5,969	75	289	188	4,079
Discontinued operations, net	429	71	500	30	82	83	653
Total	\$6,469	\$ —	\$6,469	\$105	\$371	\$271	\$4,732

Intersegment sales are recorded at estimated fair market values and income on such sales is included in operating profits (losses).

Intersegment sales and assets for timber and timberlands have not been allocated to industry segments because they are managed jointly to supply raw materials to both the building products and pulp and paper segments.

Logs and residual fibers are included at cost in the operating profits of the various manufacturing facilities.

NOTE 6. INDEBTEDNESS

Long-term debt consists of the following:

(Millions)	December 31	
	1985	1984
Commercial paper and bankers acceptance drafts	\$ 153	\$ 135
Banks		
8 1/4% term loans	—	150
Other	—	15
Notes		
7 1/4%	—	100
10.1% due 1990, redeemable in 1986	150	150
Floating rate, currently 8.15% due 1987	32	32
13 1/2% due 1994, redeemable after 1991	100	100
14% due 1987, redeemable in 1986	63	62
15% due 1990, redeemable after 1987	54	64
15.37% due 1988	76	76
Insurance companies		
6% term loan, payable in annual installments through 1989	4	5
9% term loan, payable in annual installments through 1997	7	7
10 1/2% term loan, payable in semiannual installments through 1996	4	4
10 1/2% term loans, payable in semiannual installments through 1996	35	36
13.6% senior notes due 1987	50	50
Revenue bonds, average interest rate 7.36% with varying annual payments to 2014	164	159
Purchase contracts and other, average interest rate 5.38% with varying payments to 2017	88	86
Debentures		
5 1/4% convertible subordinated debentures due 1996	87	92
12 1/4% sinking fund debentures due 2013	99	98
Zero coupon debentures, effective interest rates of 8.55% to 10.30%, maturing annually 1986 through 1990	55	—
Discount term debentures, effective interest rate 11.30% due 2015	77	—
	1,298	1,421
Less current portion	41	38
	\$1,257	\$1,383

The scheduled maturities of long-term debt are \$41 million in 1986, \$176 million in 1987, \$93 million in 1988, \$14 million in 1989 and \$227 million in 1990.

At December 31, 1985, the Corporation had a domestic bank revolving credit and term loan agreement, a foreign bank credit agreement and a regional bank agreement providing for aggregate lines of credit of \$700 million.

The revolving credit and term loan agreement is with nine domestic money center banks and establishes a \$390 million unsecured revolving line of credit until January 20, 1987, at which time the outstanding balance may be converted to a term loan repayable in eight equal semi-annual installments beginning on June 30, 1987. Commitment fees during the revolving loan period are 1/4 of 1% of the daily average unused available credit. The interest rates associated with this agreement are based on either the prime rate, certificate of deposit rate or offshore rate.

An extension of the existing foreign bank credit agreement, originally scheduled to expire in January 1986, was signed during 1985. The agreement is with ten foreign banks and establishes an unsecured revolving line of credit totaling \$210 million until March 1, 1987. Commitment fees during the revolving loan period are 1/4 of 1% of the daily average unused available credit. The agreement provides for borrowings to have an interest rate, at the Corporation's option, based on the prime rate, the Federal funds rate or the Eurodollar interbank offered rate.

The existing regional bank agreement, which had been scheduled to expire in January 1986, was also extended during 1985. The agreement is with five banks and establishes a \$100 million unsecured revolving line of credit until May 1, 1987. Commitment fees during the loan period are 1/4 of 1% of the daily average unused available credit. The interest rates associated with this agreement are based on either the prime rate or certificate of deposit rate.

The Corporation uses these three agreements to support commercial paper and master note borrowings. At December 31, 1985, \$143 million of commercial paper and \$10 million of bankers acceptance drafts, with average interest rates of 8.22% and 8.09%, respectively, were classified as long-term debt. It is the Corporation's intention to refinance the commercial paper and bankers acceptance drafts with long-term debt.

The Corporation refinanced \$100 million of 7¼% notes with commercial paper borrowings in January 1985. During the 1985 second quarter, \$10 million of 15% notes were repurchased, after which \$54 million of these notes remained outstanding. In July 1985, the Corporation retired \$150 million of 8¼% term loans prior to their scheduled maturity.

On June 20, 1985, the Corporation issued \$195 million face amount of dual serial discount debentures, including \$70 million face amount of zero coupon debentures and \$125 million face amount of discount term debentures. The zero coupon debentures mature annually from 1986 through 1990, have effective interest rates ranging from 8.55% to 10.30% and may not be redeemed. The discount term debentures mature in 2015, do not bear interest prior to June 15, 1990, but bear interest thereafter at 11.30%, require the Corporation to make sinking fund payments commencing in 1996 and are redeemable (subject to certain restrictions) at any time on or after June 15, 1990 at the Corporation's option.

During 1985, \$22 million of pollution control revenue bonds were issued on behalf of the Corporation to finance the acquisition and construction of certain pollution control facilities and to refinance existing revenue bonds. These borrowings had an average interest rate of 8.85% at December 31, 1985, and are payable in varying installments through 2005.

At December 31, 1985, the Corporation had registered for sale up to \$250 million of debt securities under a shelf registration statement with the Securities and Exchange Commission.

The 12¼% sinking fund debentures mature in 2013, require the Corporation to make sinking fund payments commencing in 1994 and are redeemable (subject to certain restrictions) at any time at the Corporation's option.

The 5¼% convertible subordinated debentures mature in 1996 and are convertible into common stock at \$30.87 per share. The indenture provides for a sinking fund for the redemption on April 1, in each of the years 1986 through 1995, of not less than 5% nor more than 10% of the debentures outstanding on April 1, 1981. At December 31, 1985, the Corporation had repurchased

sufficient debentures to meet the sinking fund requirements for the years 1986 and 1987.

The floating rate notes are convertible by the holder, prior to April 1, 1987, into 8½% debentures due 2009, and are redeemable in whole or in part at the Corporation's option. Prior to April 1, 1987, the Corporation may also convert the notes into fixed rate debentures due 2009 at a defined premium over the yield on 30-year treasury securities, but not less than 8½%. The conversion by the Corporation is subject to the election by the holder to have the notes mature on the specified conversion date. The interest rate on the notes is adjustable semiannually to a rate based upon the six-month treasury bill rate plus a specified premium.

The Corporation has interest rate exchange agreements with certain institutions. One of the agreements provides for the Corporation to pay interest at an effective fixed rate of 13.07% on the notional amount of \$52 million until October 1991, in exchange for the institution paying interest on the same amount at a floating rate equivalent to the six-month London interbank offered rate set on each semi-annual settlement date. A second agreement provides for a similar arrangement with the Corporation paying interest at an effective fixed rate of 14.07% on the notional amount of \$50 million until May 1991.

At December 31, 1985, \$93 million of long-term debt was secured by property and timber with a net book value of \$157 million, including \$88 million net book value (original cost \$132 million) relating to certain manufacturing and pollution control facilities which were financed with the proceeds from revenue bonds issued by 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.

Certain insurance company loan agreements and the 5¼% convertible subordinated debentures place limitations on cash dividends that can be paid. The amount of retained earnings available for cash dividends under the most restrictive covenants of these agreements is approximately \$775 million. In addition, the insurance company loan agreements require the Corporation to maintain a minimum of \$250 million of consolidated working capital and impose certain limitations on additional borrowings.

NOTE 7. REDEEMABLE PREFERRED STOCK

(Millions)	Adjustable Rate Convertible Preferred Stock			
	Series A	Series B	Series C	Total
Balance at December 31, 1982	\$145	\$32	\$32	\$209
Shares cancelled	-	-	(1)	(1)
Amortization of the excess involuntary liquidating value over fair value at issue date	3	1	3	7
Balance at December 31, 1983	148	33	34	215
Shares repurchased	(32)	-	-	(32)
Amortization of the excess involuntary liquidating value over fair value at issue date	3	1	3	7
Balance at December 31, 1984	119	34	37	190
Shares repurchased	(32)	(8)	-	(40)
Amortization of the excess involuntary liquidating value over fair value at issue date	3	-	3	6
Balance at December 31, 1985	\$ 90	\$26	\$40	\$156

The number of shares of adjustable rate convertible preferred stock (preferred stock) issued and outstanding were as follows:

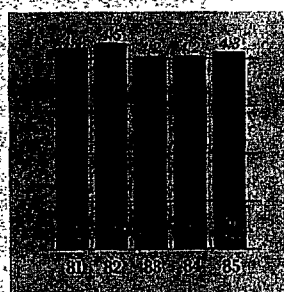
	December 31	
	1985	1984
Series A	2,485,000	3,313,000
Series B	765,000	957,000
Series C	1,317,000	1,317,000
Total	4,567,000	5,587,000

The preferred stock is recorded at fair market value on the date of issue. The excess of involuntary liquidating value over such fair market value is being amortized over a 10-year period by a charge to retained earnings and corresponding credit to preferred stock.

Each share of preferred stock is entitled to receive cumulative quarterly cash dividends at the annual rate of \$2.24. Such dividend rate is subject to increase up to a maximum of \$4.00 per share should the Corporation fail to make the scheduled purchase offers, as described in the

following paragraphs, unless the average of the last reported sales prices for the Corporation's common stock during a prescribed period of time is at least 108% of the conversion price of the preferred stock during such period. Subject to adjustment for common stock dividends and splits, each share of preferred stock has a conversion price of \$39.00 and an involuntary liquidating value of \$39.00, and is convertible into one share of common stock and entitled to one vote. In addition, whenever six quarterly dividends on Series A preferred stock are unpaid, the holders of such Series A stock are entitled to elect two directors of the Corporation until all past dividends have been paid.

Subject to the price of the Corporation's common stock and the appropriate action by the Board of Directors, the Corporation is scheduled to make offers to purchase, at a price of \$39.00 per share plus accumulated dividends, a specified number of shares annually. In 1985, the Corporation accepted tender offers, as scheduled, for the purchase of 828,333 shares of Series A and 191,946 shares of Series B preferred stock at \$39.00 per share. Scheduled preferred stock redemptions for the next five years are 1,289,000 shares in 1986, 1987 and 1988; 458,000 shares in 1989 and 242,000 shares in 1990.



Capitalization (billions of dollars)

- Common Equity
- Total Debt
- Deferred Taxes
- Redeemable Preferred Stock

Thereafter, the preferred stock may be redeemed, without limitation, at \$39.00 per share plus accumulated dividends.

The preferred stock will be subject to redemption (Series A—1986 through 1988, Series B—1986 through 1989 and Series C—1986 through 1990) at \$39.00 per share plus accumulated dividends provided that the average of the last reported sales prices for the Corporation's common stock is at least 125% of the then conversion price

NOTE 8. COMMON STOCK

At December 31, 1985, the following authorized shares of the Corporation's common stock were reserved for issue:

Employee Stock Purchase Plan	883,000
Stock option plans	5,212,000
Conversion of the 5 1/4% convertible subordinated debentures	2,830,000
Conversion of the redeemable preferred stock	4,567,000
	13,492,000

The 1984 Employee Stock Purchase Plan (Plan) reserved for issue 883,000 shares at a subscription price of \$17.00 per share. As of December 31, 1985, 5,592 subscribers remained in the Plan. Subscribers have the option to receive their payments plus interest at the rate of 10% per annum in lieu of stock. Shares can no longer be subscribed under the Plan, which expires on October 31, 1986.

The Corporation issued 771,000 shares during 1984 under the 1982 Employee Stock Purchase Plan, which expired on May 31, 1984.

The 1974 Employee Stock Option Plan (74 Plan) reserved for issue 236,000 shares. Options for shares can no longer be granted under the 74 Plan.

The 1984 Employee Stock Option Plan (84 Plan) reserved for issue 4,976,000 shares, including 990,000 shares for outstanding options. The 84 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 100% of the amount by which the market value of the common stock, as defined, exceeds the option price. Prior to 1986, officers were granted, in addition to similar cash awards, 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, exceeded the option price.

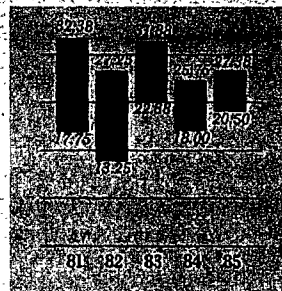
Effective January 27, 1986, the 84 Plan was amended to permit the granting of rights to surrender options for shares, as described in the preceding paragraph, to non-officers as well as to officers. In addition, all holders of outstanding stock options under the 84 Plan were awarded such rights to surrender their options for shares.

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 in subsequent periods for market value fluctuations. In 1985, 1984 and 1983, the compensation expense resulting from the Corporation's stock option plans was not material.

Additional information relating to the stock option plans is as follows:

	Year ended December 31	
	1985	1984
Options outstanding at January 1	1,710,000	745,000
Granted		1,144,000
Exercised/Surrendered	(453,000)	(30,000)
Cancelled	(31,000)	(149,000)
Options outstanding at December 31	1,226,000	1,710,000
Options exercisable at December 31	1,226,000	358,000
Options available for grant at December 31	3,986,000	4,122,000
Option prices per share		
Granted		\$21-\$22
Exercised/Surrendered	\$21-\$25	\$21
Cancelled	\$21-\$22	\$21-\$22

The shares and prices relating to the Plan, the 74 Plan, the



Common Stock Price Range
(amounts in dollars)

84 Plan, the convertible subordinated debentures and the redeemable preferred stock are subject to adjustment for certain changes in the capital structure, including common stock splits and stock dividends.

NOTE 9. RETIREMENT PLANS

Most of the Corporation's employees participate in non-contributory defined benefit pension plans. Contributions to the plans for hourly employees are based upon either the hourly rates set forth in various labor contracts or the actuarially determined cost. The Corporation has a single plan for all of its salaried employees to which contributions are also based upon the actuarially determined cost.

Presented below is a comparison, for the defined benefit pension plans administered solely or jointly by the Corporation, of the accumulated plan benefits and plan assets available for the payment of these benefits. The assumed annual rate of investment return used in determining the actuarial present values of accumulated plan benefits was 7.5% in 1985 and 1984.

(Millions)	December 31	
	1985	1984
Actuarial present value of accumulated plan benefits		
Vested	\$260	\$252
Nonvested	23	25
	\$283	\$277
Assets available for plan benefits	\$386	\$295

Assets available for plan benefits increased in 1985 primarily as a result of higher than projected investment returns.

The Corporation also made contributions to several collectively bargained, multi-employer pension plans in accordance with the provisions of negotiated labor contracts generally based upon the number of hours worked. Information from the plans' administrators is not presently available to permit the Corporation to determine its share of unfunded vested benefits.

The Corporation's total expense for defined benefit pension plans, including contributions made to multi-employer pension plans and amortization of unfunded prior service costs over periods ranging from ten to thirty years, was \$35 million in 1985, \$26 million in 1984 and \$19 million in 1983.

The Corporation also 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 par-

ticipant's annual compensation, as defined. The Corporation also matches 50% of voluntary before-tax contributions up to a maximum matching contribution of 3% of a participant's compensation. At December 31, 1985, the Savings Plan had net assets of approximately \$224 million and approximately 11,000 eligible employees. Approximately \$185 million of these net assets arose from employer contributions to the former Stock Bonus Plan, which was amended and restated as the Savings Plan effective January 1, 1985. The cost of the Savings Plan was \$13 million in 1985. Contributions to the former Stock Bonus Plan, which were limited based on the availability of the Corporation's profits, amounted to \$5 million in 1984 and 1983.

The Corporation also provides certain health care and life insurance benefits to eligible retired employees. Effective January 1, 1985, the Corporation changed its method of accounting for these benefits to accrue the full actuarially determined cost for currently retired employees and to amortize the actuarially determined cost of active employees' retirement benefits over their estimated remaining service period. The Corporation previously expensed these benefits as paid. Management believes this change will result in a better matching of the costs of retiree benefits with the periods benefited from employee services. The effect of the change on the accompanying financial statements was not material.

During 1985, the Financial Accounting Standards Board issued new standards on employers' accounting for pensions. For U.S. plans, companies are required to adopt the new expense and disclosure standards no later than 1987 and, in certain circumstances, to reflect a minimum pension liability no later than 1989. For plans outside the U.S., the effective date for all standards is 1989. These new standards will be adopted prospectively, and thus the accompanying financial statements will not be restated.

The Corporation has not decided when it will implement the new standards. Based on a preliminary review, the Corporation does not expect the new standards, under existing conditions, to have a material adverse impact on either financial position or results of operations when adopted.

NOTE 10. INCOME TAXES

The provision for income taxes is based on pretax financial accounting income which differs from taxable income.

Differences generally arise because certain items, such as depreciation and capitalized interest, are reflected in different time periods for financial accounting and tax purposes.

The Corporation uses the flow-through method of accounting for investment tax credits. Under the flow-through method, investment tax credits are recognized as a reduction of income tax expense in the year the qualified investment is made.

The provision for income taxes for continuing operations consisted of the following:

(Millions)	Year ended December 31		
	1985	1984	1983
Federal income taxes, net of investment tax credit			
Current	\$ 13	\$ 40	\$ 26
Deferred	84	90	3
State income taxes	5	13	3
	\$102	\$143	\$ 32

The difference between the ordinary Federal income tax rate and the Corporation's effective income tax rate for continuing operations is summarized as follows:

	Year ended December 31		
	1985	1984	1983
Federal income tax rate	46%	46%	46%
Increase (decrease) as a result of			
Investment tax credit	(10)	(4)	(7)
Value of timber appreciation taxed at capital gains rate	(10)	(6)	(13)
State income taxes, net of Federal benefit	3	3	3
Other	4	(3)	1
	33%	36%	30%

The following is a summary of the components of the deferred tax provision for continuing operations:

(Millions)	Year ended December 31		
	1985	1984	1983
Excess of tax depreciation over financial depreciation	\$97	\$83	\$46
Reinstatement from recognition of investment tax credits in 1982	—	22	30
Capitalized interest, net	6	(6)	(6)
Deferred start-up costs, net	4	(6)	(10)
Sale of tax benefits	(13)	(13)	(12)
Write down of certain assets	(6)	10	(45)
Other	(4)	—	—
	\$84	\$90	\$ 3

39

NOTE 11. LITIGATION

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 deter-

minations in any or all of such proceedings will have a material adverse effect upon the financial condition of the Corporation.

NOTE 12. CHANGE IN ACCOUNTING POLICY

As of January 1, 1983, the Corporation adopted the requirements of Statement of Financial Accounting Standards No. 52. As a result, the financial statements of the Corporation's foreign operations are translated into U.S. dollars at current exchange rates. Resulting translation

adjustments are accumulated as a component of shareholders' equity and excluded from net income. Foreign currency transaction gains and losses, which were not material in 1985, 1984 and 1983, are included in net income.

NOTE 13. ACQUISITIONS

On July 16, 1984, the Corporation acquired certain assets from St. Regis Corporation in a transaction accounted for as a purchase. The purchased assets included a linerboard and kraft paper mill, related timberlands and cutting contracts in Mississippi, 16 corrugated container plants, and certain current assets related to those operations. The purchase price consisted of approximately \$221 million in cash and a \$110 million noninterest-bearing five year note repayable by surrender

of St. Regis stock previously acquired by the Corporation for \$138 million. In August 1984, the Corporation surrendered the St. Regis stock as payment for the note. The results of these 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 1984, the Corporation's operating results for that year would not have been materially affected.

NOTE 14. OTHER ASSETS

In 1980, the Corporation formed a joint venture (GA-MET) with Metropolitan Life Insurance Company. Each partner has a 50% interest in the venture. GA-MET owns and operates the Corporation's office headquarters building in Atlanta, Georgia. The Corporation leases from GA-MET, at market rates, office space in the Atlanta building. GA-MET has loan agreements with various banks arising from the construction of the Atlanta building. At December 31, 1985, the loans outstanding total \$116 million and mature at various dates through January 1988. The Corporation accounts for this investment using the equity method. The

Corporation's investment in GA-MET of \$12 million in 1985 and \$15 million in 1984 is included in "Other assets" on the accompanying Balance Sheets.

GA-MET also owned and operated an office building complex in Portland, Oregon, which was the Corporation's office headquarters prior to the relocation to Atlanta in 1982. The Portland building was sold in September 1984, and the Corporation, through its 50% interest in GA-MET, recorded a pre-tax gain of \$19 million which was accounted for as an unusual item (Note 2).

NOTE 15. UNAUDITED SELECTED QUARTERLY FINANCIAL DATA

(Millions, except per share amounts)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1985	1984	1985	1984	1985	1984	1985	1984
Net sales	\$1,580	\$1,488	\$1,794	\$1,670	\$1,752	\$1,758	\$1,590	\$1,766
Gross profit	269	263	323	306	302	336	269	336
Income from continuing operations before extraordinary item	49	43	67	66	58	81	33	63
Income (loss) before extraordinary item	49	51	67	84	28	83	33	(99)
Net income (loss)	49	51	67	84	28	83	43	(99)
Per common share income from continuing operations before extraordinary item								
Primary	.43	.37	.61	.60	.52	.74	.27	.57
Fully diluted	.42	.36	.60	.59	.51	.73	.27	.57
Per common share income (loss) before extraordinary item								
Primary	.43	.45	.61	.78	.23	.76	.27	(1.01)
Fully diluted	.42	.44	.60	.76	.23	.75	.27	(1.01)
Per common share net income (loss)								
Primary	.43	.45	.61	.78	.23	.76	.37	(1.01)
Fully diluted	.42	.44	.60	.76	.23	.75	.36	(1.01)
Dividends declared per common share	.20	.15	.20	.15	.20	.20	.20	.20
Price range of common stock								
High	27.38	25.75	25.13	25.00	25.63	23.50	26.88	25.25
Low	21.00	20.63	20.50	18.13	21.13	18.00	20.63	20.63

Income from continuing operations before extraordinary item includes a \$19 million pre-tax gain from the sale of timberlands in the 1985 first quarter and a \$19 million pre-tax gain on the sale of the Portland office building in the 1984 third quarter.

NOTE 16. UNAUDITED SUPPLEMENTARY INFORMATION
ON THE EFFECTS OF INFLATION

The supplementary information in this footnote sets forth selected financial data relating to the effects of specific price changes on the individual resources of the Corporation, in accordance with the current cost disclosure requirements of the Financial Accounting Standards Board. Although management believes that the estimates have been developed in a reasonable manner in compliance with the requirements of the FASB, it should be recognized that they may be of only limited value because of the numerous assumptions and subjective judgments inherent in the estimation process. Therefore, the information presented herein should not be viewed as a precise indicator of the effects of inflation.

Current cost estimates for property, plant and equipment were developed using historical costs appropriately indexed for increased costs of construction. A similar adjustment was made to historical depreciation and depletion amounts. Timber and timberlands have been included in current cost data as adjusted to reflect the effect of general inflation with no further adjustment to reflect current cost estimates.

The current cost of inventories at manufacturing plants was determined by reference to average production costs experienced during the year. Current cost of inventories at building products distribution centers was based upon a review of recent purchases for a representative sample at selected branches.

The table below attempts to measure the effects of price changes of specific assets on the results of operations for 1985. The effect of general inflation on these price changes was measured by the average 1985 Consumer Price Index for All Urban Consumers. In accordance with the FASB, the provision for income taxes has not been adjusted for increasing current costs because such increases are not deductible for income tax purposes.

(Millions)	Year ended December 31, 1985	
	As Reported	Current Dollars
Net sales	\$6,716	\$6,716
Cost of sales	5,553	5,548
Depreciation and depletion	310	440
Other costs and expenses	544	544
Provision for income taxes	102	102
	6,509	6,634
Income from continuing operations	\$ 207	\$ 82
Gain from decline in purchasing power of net amounts owed		\$ 67
Effects of increase in general price level on inventories, property, plant and equipment and natural resources held during the year		\$ 196
Increase in current cost*		31
Excess of increase in general price level over increase in current cost		\$ 165

*At December 31, 1985, current cost of inventories was \$744 million, property, plant and equipment, net of accumulated depreciation, was \$3,273 million and natural resources, net of depletion, was \$1,344 million.

The 1985 net income as reported was adversely affected by \$125 million to adjust historical costs by the change in specific price levels during the periods in which the assets were held. During the same 1985 period, the Corporation's monetary liabilities exceeded its monetary assets. Accordingly, an important hedge against inflation is provided as this net monetary liability position will be paid in dollars which have a lower purchasing power than the dollars originally received in return for the obligations. This favorable gain from decline in purchasing power of net amounts owed of \$67 million would reduce adverse effects of the inflation adjustments to income.

It should also be pointed out that the adjustments required by the FASB represent an attempt to estimate what it would cost in terms of today's dollars to build currently existing facilities. Thus, the calculations do not reflect the economic benefit of new technology which would be realized by replacing the Corporation's existing plants with new facilities. Such replacement of the Corpo-

ration's plants would result in increased productivity and certain other cost savings. The cost savings would be realized primarily in the form of reduced manpower requirements, lower maintenance costs and reduced costs for energy. Such savings would also reduce the adverse effects of inflation.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(Millions, except per share amounts)	Year ended December 31				
	1985	1984	1983	1982	1981
Net sales ¹	\$6,716	\$6,920	\$6,522	\$5,576	\$5,812
Income (loss) from continuing operations before extraordinary items ²					
As reported	\$ 207	\$ 253	\$ 75	\$ 20	\$ 88
Current dollars	82	125	(82)	(132)	(53)
Per common share income (loss) from continuing operations before extraordinary items—primary ²					
As reported	\$ 1.83	\$ 2.28	\$.53	\$ (.01)	\$.69
Current dollars	.62	1.03	(1.04)	(1.55)	(.78)
Per common share income (loss) from continuing operations before extraordinary items—fully diluted ²					
As reported	\$ 1.80	\$ 2.24	\$.54	\$.02	\$.69
Current dollars	.58	1.03	(1.04)	(1.55)	(.78)
Net assets at end of year					
As reported	\$2,147	\$2,035	\$2,013	\$1,989	\$1,926
Current dollars	3,404	3,492	3,624	3,802	3,861
Excess of increase in general price level of inventory, property, plant and equipment and natural resources over increase in current cost	\$ 165	\$ 104	\$ 76	\$ 205	\$ 66
Gain from decline in purchasing power of net amounts owed	\$ 67	\$ 74	\$ 79	\$ 89	\$ 191
Cash dividends declared per common share ¹	\$.80	\$.72	\$.65	\$ 1.17	\$ 1.42
Market price per common share ¹	\$26.50	\$25.89	\$26.72	\$29.26	\$23.81
Average consumer price index	322.2	311.1	298.4	289.1	272.4

¹ Historical cost information adjusted for changes that have occurred in the general purchasing power of the dollar as measured by the average Consumer Price Index for All Urban Consumers.

² Before cumulative effect of accounting change in 1982.

The financial statements on the preceding pages, which consolidate the accounts of Georgia-Pacific Corporation and its subsidiaries, have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

Management of Georgia-Pacific Corporation is responsible for the accurate and objective preparation of the consolidated financial statements. Accordingly, the Corporation maintains a system of policies, procedures and controls which is designed to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management believes that the proper internal controls are in place and that the system is adequate and effective in safeguarding assets and providing reliable accounting records.

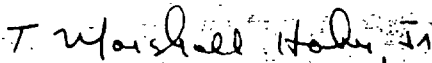
An independent evaluation of the system is performed by the Corporation's qualified internal audit staff in order to confirm that the system is adequate and operating effectively. As indicated in the Independent Auditors' Report, Arthur Andersen & Co. performs a separate independent examination of the Corporation's consolidated financial statements for the purpose of determining that the statements are presented fairly in accordance with generally accepted accounting principles applied on a consistent basis. Arthur Andersen & Co. is appointed by the Board of Directors and meets regularly with the Audit Committee of the Board.

The Audit Committee consists of three outside directors who review the work of the Corporation's internal auditors and independent public accountants and approve fees paid for audit and non-audit services.

The independent public accountants and internal audit staff have full and free access to the Audit Committee.



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



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

February 14, 1986.

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

We have examined the balance sheets of Georgia-Pacific Corporation (a Georgia corporation) and subsidiaries as of December 31, 1985 and 1984, and the related statements of income, common shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Georgia-Pacific Corporation and subsidiaries as of December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, all in conformity with generally accepted accounting principles applied on a consistent basis.



Atlanta, Georgia
February 14, 1986

FIVE-YEAR SELECTED FINANCIAL DATA

(Millions, except per share amounts)	Year ended December 31				
	1985	1984	1983	1982	1981
Operations					
Net sales	\$6,716	\$6,682	\$6,040	\$5,003	\$4,914
Costs and expenses					
Cost of sales	5,553	5,441	4,978	4,206	4,131
Selling, general and administrative	431	426	374	359	304
Depreciation and depletion	310	282	289	275	228
Interest	132	156	157	186	125
	6,426	6,305	5,798	5,026	4,788
Income (loss) from continuing operations before unusual items, income taxes and extraordinary items ¹	290	377	242	(23)	126
Unusual items	19	19	(135)	49	-
Provision for income taxes	102	143	32	6	38
Income from continuing operations before extraordinary items ¹	\$ 207	\$ 253	\$ 75	\$ 20	\$ 88
Financial position, end of year					
Current assets	\$1,291	\$1,406	\$1,268	\$1,176	\$1,175
Timber and timberlands, net	804	840	753	748	752
Property, plant and equipment, net	2,606	2,270	1,989	2,214	2,200
Net assets of discontinued operations	11	158	653	651	626
Other assets	154	111	69	130	93
Total assets	4,866	4,785	4,732	4,919	4,846
Current liabilities	700	674	638	738	846
Long-term debt	1,257	1,383	1,453	1,618	1,487
Deferred income taxes	606	503	413	365	384
Redeemable preferred stock	156	190	215	209	203
Total net assets	\$2,147	\$2,035	\$2,013	\$1,989	\$1,926
Working capital	\$ 591	\$ 732	\$ 630	\$ 438	\$ 329
Other statistical data					
Capital expenditures	\$ 642	\$ 710	\$ 188	\$ 207	\$ 609
Per common share					
Income (loss) from continuing operations before extraordinary items—primary ¹	1.83	2.28	.53	(.01)	.69
Income from continuing operations before extraordinary items—fully diluted ¹	1.80	2.24	.54	.02	.69
Dividends declared	.80	.70	.60	1.05	1.20
Market price: High	27.38	25.75	31.88	27.25	32.38
Low	20.50	18.00	22.38	13.25	17.75
Year end	26.50	25.00	24.75	26.25	20.13
Book value	20.59	19.58	19.48	19.22	18.99
Shares of common stock outstanding at year end	103	103	102	101	99
Number of common shareholders of record (thousands)	74	79	80	88	89
Number of employees (thousands)	38	40	39	44	44
Selected ratios					
Return on capital employed ²	8.1%	9.7%	5.2%	1.6%	5.8%
Return on common equity ²	10.2%	12.6%	3.8%	1.0%	4.6%
Total debt/capital	33%	36%	38%	42%	43%

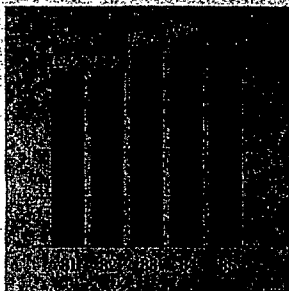
¹ Before cumulative effect of accounting change in 1982.

² The methods of calculating these amounts are described in the Financial Review section beginning on page 19.

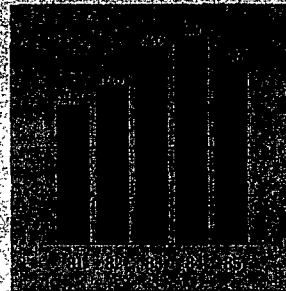
SALES AND OPERATING PROFITS BY INDUSTRY SEGMENT

(Millions)	Year ended December 31									
	1985		1984		1983		1982		1981	
Trade sales										
Building products										
Structural panels	\$1,666	25%	\$1,637	25%	\$1,560	26%	\$1,217	24%	\$1,230	25%
Lumber	1,434	21	1,461	22	1,424	24	1,003	20	1,017	20
Gypsum	377	6	360	5	269	4	183	4	193	4
Roofing	260	4	268	4	222	4	197	4	144	3
Thermosetting resins	173	3	186	3	162	3	136	3	139	3
Other	560	8	540	8	506	8	450	9	438	9
	4,470	67	4,452	67	4,143	69	3,186	64	3,161	64
Pulp and paper										
Containers and packaging	1,037	15	909	13	647	11	605	12	569	11
Printing and fine papers	356	5	445	7	450	7	437	9	375	8
Tissue	514	8	507	8	449	7	429	8	388	8
Market pulp	157	2	225	3	191	3	187	4	248	5
Other	70	1	25	—	31	1	29	1	37	1
	2,134	31	2,111	31	1,768	29	1,687	34	1,617	33
Other operations	112	2	119	2	129	2	130	2	186	3
Continuing operations	\$6,716	100%	\$6,682	100%	\$6,040	100%	\$5,003	100%	\$4,914	100%
Operating profits										
Building products	\$ 391	86%	\$ 379	63%	\$ 354	81%	\$ 136	64%	\$ 141	48%
Pulp and paper	29	6	202	34	71	16	44	21	118	41
Other operations	35	8	20	3	13	3	32	15	33	11
Continuing operations	\$ 455	100%	\$ 601	100%	\$ 438	100%	\$ 212	100%	\$ 292	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, extraordinary items and cumulative effect of accounting change in 1982. Additional information regarding industry segments is presented in Note 5 of the Notes to Financial Statements.



Gross Margin/Net Sales



Current Assets/Current Liabilities

	As of December 31, 1985		Production				
	No. of Facilities	Rated Annual Capacity	1985	1984	1983	1982	1981
Building Products							
Softwood plywood (3/4") (m.sq.ft.)	18	4,625	4,414	4,443	4,430	3,831	3,653
Hardwood plywood (sm) (m.sq.ft.)	2	373	311	343	442	444	405
Particleboard (3/4") (m.sq.ft.)	4	389	410	381	400	303	423
Softboard (1/2") (m.sq.ft.)	1	250	239	243	241	226	212
Hardboard (1/8") (m.sq.ft.)	2	415	368	361	346	220	360
Fiberboard (3/4") (m.sq.ft.)	1	75	76	69	77	63	55
Panelboard (1/8") (m.sq.ft.)	2	460	290	311	299	301	443
Waferboard (3/8") (m.sq.ft.)	1	155	128	112	64	22	38
Oriented strand board (3/8") (m.sq.ft.)	3	660	173	96	51	-	-
Lumber (m.bd.ft.)	39	1,712	1,684	1,650	1,603	1,406	1,418
Gypsum board (m.sq.ft.)	9	2,545	2,495	2,412	2,242	1,681	1,835
Roofing - shingles and rolls (t.squares)	6	8,463	7,789	7,539	5,973	5,363	3,704
Formaldehyde (m.lbs.)	10	1,185	1,188	1,169	1,081	966	1,039
Thermosetting resin (m.lbs.)	15	1,864	1,650	1,527	1,451	1,146	1,156
Distribution centers	141						
Pulp and Paper							
Pulp (t.tons)	27 ¹	3,732	3,292	3,332	2,976	2,648	2,725
Paper (t.tons)		3,188	2,824	2,703	2,375	2,162	2,112
Corrugated packaging (m.sq.ft.)	30	18,065	13,703	11,880	8,427	7,680	6,291
Tissue products (t.tons)	5	478	432	422	422	393	368
Miscellaneous Facilities							
Building products	17						
Pulp and paper	21						
Other manufacturing operations	12						
Resources (as of December 31)							
North American timberlands (t.acres)							
Owned in fee			4,760	4,920	4,632	4,630	4,615
Controlled			480	480	532	506	515

¹Total for pulp/paper

sm = surface measure basis

t = thousands

m = millions



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



Robert A. Schumacher
President and
Chief Operating Officer



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



Harold L. Airington
Executive Vice President
Building Products



Conrad Schweitzer
Executive Vice President
Pulp and Paper



J. Kermit Birchfield, Jr.
Senior Vice President
Legal and Governmental Affairs

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Chairman and
Chief Executive Officer
Atlanta, Georgia

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Chief Executive Officer
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Norfolk, Virginia

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President
HCF Enterprises, Inc.
Private Investment Company
Detroit, Michigan

Richard V. Giordano^{3 4}
Chairman and
Chief Executive Officer
The BOC Group
London, England

Francis Jungers^{1 2}
Private Business Consultant
Sunriver, Oregon

F. James McDonald^{3 5}
President and
Chief Operating Officer
General Motors Corporation
Detroit, Michigan

Robert E. McNair^{2 5}
Partner, McNair Glenn
Konduros Corley Singletary
Porter & Dibble
Attorneys
Columbia, South Carolina

Chauncey J. Medberry^{2 4}
Director
Bank of America N.T. & S.A.
and Bankamerica Corporation
Los Angeles, California

Harold E. Sand^{4 5}
President
Sand Investment Co.
Portland, Oregon

Robert A. Schumacher
President and
Chief Operating Officer
Darien, Connecticut

¹Executive Committee

²Audit Committee

³Stock Option Plan and
Management Compensation
Committee

⁴Finance Committee

⁵Nominating Committee

OFFICERS

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Chairman and
Chief Executive Officer

Robert A. Schumacher
President and
Chief Operating Officer

Harold L. Airington
Executive Vice President
Building Products

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

John H. Dunkak
Senior Vice President
Western Pulp and Paper

Ronald P. Hogan
Senior Vice President
Distribution Division

Davis K. Mortensen
Senior Vice President
Wood Products Manufacturing

Glenn E. Wilson
Senior Vice President
Gypsum and Roofing Division

Maurice W. Kring
Group Vice President
Tissue, Pulp and Paperboard

Joseph J. Armetta
Vice President
Distribution Division
Midwest Region

Howard S. Bergen
Vice President
Chemical Division

David S. Dimling
Vice President
Printing and Paper Division

Willie L. Duke
Vice President
Eastern Wood Products
Manufacturing Division

Diane Durgin
Vice President
Law and Secretary

Donald L. Glass
Vice President
Roofing Division

Stephen K. Jackson
Vice President
Distribution Division
Marketing and Advertising

Joseph H. Joiner
Vice President
Controller and
Information Resources

Alfred P. Lee
Vice President
Consumer Paper Products

George A. MacConnell
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Distribution Division
Northeast Region

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Paper Division

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Dennis D. Melstrom
Vice President
Pulp and Paper
Information Resources

Thomas E. Mitchell
Vice President
Government Affairs

Dewey L. Mobley
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Western Wood Products
Manufacturing Division

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Northern Pulp and Paper Division

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Vice President
Distribution Division
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John E. Rasor
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Mid-Continent Wood Products
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Vice President
Human Resources

Robert A. Starling
Vice President
Distribution Division
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Marion L. Talmadge
Vice President
Executive Affairs

Douglas A. Thom
Vice President
Packaging Division

Carroll E. Tolar
Vice President
Engineering

Lawrence B. Trammel
Vice President
Distribution Division
Southwest Region

Michael A. Vidan
Vice President
Wood Products Sales Division

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

Wayne L. Tamblyn
Treasurer

Corporate Headquarters

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

Stock Exchange and Symbols

Georgia-Pacific Corporation
Common Stock (GP) and
Preferred Stock (GP Pr A),
(GP Pr B) and (GP Pr C) are
listed on the New York
Stock Exchange

Transfer Agent and Registrar

Bank of America N.T. & S.A.
Corporate Agency Service Center
P.O. Box 37002
San Francisco, California 94137

Shareholder Information

Registered G-P shareholders are
eligible to participate in the G-P
Dividend and Cash Investment
Plan. For information on the
plan, or for shareholder
information, write to:

Corporate Secretary
Department
Georgia-Pacific Corporation
P.O. Box 105605
Atlanta, Georgia 30348
(404) 521-5210

Financial Information

A copy of the Georgia-Pacific
1985 Annual Report to the Secu-
rities and Exchange Commission
on Form 10-K will be supplied
without charge at any time after
March 31, 1986. Annual Statis-
tical Updates are also available.
Requests for financial infor-
mation should be directed to:

Richard A. Good
Director-Investor Relations
Georgia-Pacific Corporation
P.O. Box 105605
Atlanta, Georgia 30348
(404) 521-4721

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