GEORGIA PACIFIC CORP
Form 10-K
February 03, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended January 3, 2004

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 1-3506

GEORGIA-PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

Georgia	**93-0432081**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

133 Peachtree Street, N.E.,

Atlanta, Georgia 30303

(Address of Principal Executive Offices) (Zip Code)

Registrant s telephone number, including area code: (404) 652-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Georgia-Pacific Corporation Georgia-Pacific Group Common Stock ($.80 par value)	New York Stock Exchange
Georgia-Pacific Group Rights to Purchase Series B Junior Preferred Stock (no par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

As of the close of business on January 23, 2004, the registrant had 253,696,632 shares of Georgia-Pacific Common Stock outstanding.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 28, 2003 (assuming, for the sole purpose of this calculation that all executive officers and directors of the registrant are affiliates) was $4,740,435,947 for Georgia-Pacific Common Stock.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of Georgia-Pacific Corporation s definitive Proxy Statement for use in connection with its Annual Meeting of Shareholders, scheduled to be held on May 4, 2004, are incorporated by reference in answer to Part III of this Form 10-K.

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GEORGIA-PACIFIC CORPORATION

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended January 3, 2004

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PART I

ITEM 1. BUSINESS

Georgia-Pacific Corporation was organized in 1927 under the laws of the State of Georgia and is headquartered in Atlanta, Georgia.

We are engaged in four principal business operations: the manufacture of tissue products (including bath tissue, paper towels, and napkins) and disposable tabletop products (including cups, plates, cutlery and containers); the manufacture of containerboard and packaging (including corrugated packaging, linerboard and medium); the manufacture of bleached pulp and paper (including paper, market and fluff pulp, kraft and bleached board) and the manufacture and distribution of building products (including plywood, oriented strand board, various industrial wood products, and softwood and hardwood lumber as well as certain non-wood products including gypsum board, chemicals and other products).

Prior to November 2, 2002, we were engaged in the distribution of paper products, packaging and facility supplies through our paper products distribution business, Unisource Worldwide, Inc. (Unisource). Effective November 2, 2002, we sold a 60% controlling interest in Unisource to an affiliate of Bain Capital, LLC.

Prior to October 6, 2001, we also engaged in the growing of timber on approximately 4.7 million acres of timberlands that we owned or leased. During 2001, these timberlands supplied approximately 10% of the overall timber requirements of our manufacturing facilities. On October 6, 2001, we completed the spin off of the entities that operated our timberlands and their merger with and into Plum Creek Timber Company, Inc. (Plum Creek).

Among North American producers, we rank first in the production of tissue paper products, disposable tableware, structural wood panels and industrial wood panels; second in wood bonding and industrial thermosetting resins; third in gypsum wallboard; fourth in containerboard, corrugated packaging and market pulp; and fifth in lumber products and paper (uncoated free-sheet). Our building products distribution business is the leading supplier of wholesale building products in the United States. Our chemical business also supplies paper chemicals and tall oil based chemicals.

Most of our products are made of solid wood, virgin and recycled wood fiber, or wood by-products. We purchase the majority of these readily available raw materials from timber owners, independent log merchants and brokers, and recycled fiber brokers. We believe we are the largest producer of open market wood in North America.

Our strategy is to improve our return on assets by acquiring and investing in businesses that are high value-added and that position us closer to consumers, and by divesting or exiting non-strategic businesses, and by acquiring and investing in businesses that are high value-added and that position us closer to consumers. A key component of that strategy is improving our bath tissue, paper towel and napkin business, which is commonly referred to as the tissue business. We believe that our acquisition of Fort James Corporation in 2000 directly facilitated this strategy. In 2001, in connection with our redirection of focus away from commodity-based businesses, we sold a portion of our pulp and paper assets to Domtar Inc. and divested our timber businesses by merging them with Plum Creek.

In May 2002, our board of directors approved separating our consumer products, packaging and bleached pulp and paper businesses (along with our remaining interest in the Unisource paper distribution business) from our building products manufacturing and distribution business. After this separation, we would have consisted of only the building products manufacturing and distribution business.

In September 2002, this separation was suspended indefinitely in light of conditions in the financial and capital markets, operating results in our two principal businesses, and the market s perception of our asbestos liabilities.

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In September 2003, we announced that we were exploring strategic alternatives for our building products distribution business, including its possible sale. On January 29, 2004, we announced that we had signed a letter of intent for Koch Industries, Inc., to acquire our stand-alone pulp mills at Brunswick, Georgia, and New Augusta, Mississippi, for $610 million, including the assumption of $73 million of indebtedness. Net cash proceeds that may result from the sale of any of these businesses will be used to reduce outstanding debt.

Our four principal businesses are broken down into six operating segments: North America consumer products, international consumer products, packaging, bleached pulp and paper, building products manufacturing and building products distribution.

Consumer Products

We are the largest North American producer of tissue products; a leading manufacturer of tissue products in Europe; and through our Dixie business, the largest producer of disposable tableware in North America. We manufacture and sell a wide array of branded and private label consumer and commercial tissue products. These include bath tissue, paper towels and napkins, which are made from virgin and recycled fibers, as well as disposable plates, cups, cutlery and containers. Primary production of these products takes place in 25 tissue mills throughout Europe and the United States and 12 disposable tableware plants in North America. Worldwide tissue capacity is approximately 4.1 million tons, making this business the world s largest producer of tissue products. Markets for tissue products are generally influenced by population growth, changes in per capita consumption, and levels of economic activity in a geographic market.

We recently announced our decision to permanently close some of our tissue paper machines. Machinery located at our Plattsburgh, New York and Belllingham and Camas, Washington mills producing 89 thousand tons of primary tissue will be permanently closed. Additionally, early in 2003 we shut down a tissue paper machine at our Old Town, Maine facility. The Old Town tonnage reduction was 45,000 tons of primary production. The total primary tissue reduction of 134,000 tons represents over 4% of our beginning capacity for 2003.

The consumer products business operates as two segments: North America consumer products and international consumer products.

North America Consumer Products Segment

With a 32% volume market share, we are the largest producer of tissue products in North America. The business produces bath tissue, paper towels and napkins made from virgin and recycled fibers, in both branded and private label tissue products, for the retail and commercial markets. Fourteen production and converting facilities located throughout the United States and two converting facilities in Mexico produce finished goods to serve the North American market. In 2003, North American sales accounted for $5,434 million, or 74% of our worldwide consumer products sales.

Retail Tissue. In the retail (or at-home) channel, which accounted for 68% of domestic tissue sales in 2003, we produce both branded and private label products. The rankings of our principal retail brands based on unit share include Quilted Northern and Angel Soft bath tissue (the number two and three bathroom tissue brands, respectively), Brawny and Sparkle paper towels (the number three and four paper towel brands, respectively), and five leading napkin brands including Mardi Gras napkins (the leading paper napkin brand) and Vanity Fair premium dinner napkins (the number one premium napkin brand). Other retail brands include Sparkle and Brawny paper napkins, Soft N Gentle bathroom and facial tissue, MD bath tissue, Mardi Gras towels, Zee napkins (number one on the West Coast), and Green Forest bath tissue, towels, and napkins.

We also supply private label or customer brand products to some of the largest retailers in the United States. We believe that we are the leading supplier to the United States private label towel and tissue market, with a market share of 36%.

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We believe we are the leading supplier of tissue, towel and napkin products to the warehouse club and dollar stores, the fastest growing channels, in the consumer products industry. Additionally, we have well-established relationships with the leaders in the rapidly expanding mass merchandise channel, as well as long-term relationships with major retailers in the grocery channel.

Commercial Tissue. In 2003, the remaining 32% of domestic tissue sales came from commercial and industrial (or away-from-home) markets. These sales were made through independent paper distributors, food service and janitorial distributors, and to national fast food accounts for use in restaurants, offices, factories, hospitals, schools and hotels. Our principal away-from-home brands include: Quilted Northern ps and Angel Soft ps bath and facial tissues; BigFold and Signature towels; Preference®, Acclaim and Envision® brands of folded, hardwound roll and perforated roll towels, bath and facial tissue; Cormatic®, HACCP Guardian, MAX 3000, enMotion, SofPull, and Compact controlled usage dispensing systems for a range of towel, tissue, soap, air freshener and toilet seat cover products; Easy Nap, Essence®, Impressions, MORNAP®, and Preference® brands of dispenser or single-service napkins; and ShopMaster®, DynaMAX, TuffMate, and TaskMate wipers.

According to the American Forest & Paper Association, in 2003, we sold more tissue products in the commercial channel than any other company in North America and, based on volume, had a 40% market share. We are the market leader in proprietary dispensers and also have leading market positions in the janitorial supply and manufacturing end-use markets. We consider the commercial tissue market to have attractive long-term fundamentals, including unit volume growth due to increased dining and entertaining outside of the home.

Dixie. The Dixie business, with one of the best-known names in disposable plates, cups, cutlery and containers, has the number one market share in the $12 billion North American disposable tableware market. Our principal retail tabletop brand, Dixie, is virtually synonymous with the paper cup it created over 80 years ago. Through a 12-plant network of focused production facilities in North America, Dixie manufactures a full range of products for both retail and foodservice markets.

We believe that we are the leading supplier of tabletop products to the warehouse club channel, and one of the largest producers of disposable cups, plates and related products for the foodservice industry. Foodservice customers include distributors, restaurants, hotels, office buildings and institutions, many of the same customers to which we sell our tissue products. Approximately 58% of Dixie sales are into retail distribution channels and the remaining 42% are into foodservice distribution channels. In 2003, Dixie s net sales to third party customers were $942 million.

International Consumer Products Segment

The international consumer products segment is a leading supplier of paper-based consumer products in many European countries. Product lines in both the retail and away-from-home markets include bathroom and facial tissue, paper towels and napkins. Retail sales include both branded and private label products. We also market feminine hygiene products, and ancillary products such as health care, cosmetic cotton and pharmacy supplies, in certain countries. These products are manufactured across Europe in 11 primary production mills, with an annual capacity of over 905,000 tons, or are purchased from others. Ten stand-alone converting plants strategically located throughout Europe supplement converting operations located at the primary production mills. This combined network provides cost-effective market reach given relatively high European distribution costs and limited practical distribution radius from any single mill site. In 2003, net sales for this international business accounted for $1,941 million, or 26% of our worldwide consumer products sales.

In January 2004, we announced our intention to permanently close our converting facility at Wrexham, United Kingdom. The facility has the capacity to convert 12,400 tons of tissue products. We anticipate relocating the Wrexham equipment during July 2004.

During 2003, tissue-based products accounted for 78% of our annual international consumer products sales with the balance comprised of feminine hygiene products, and ancillary products such as health care, cosmetic

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cotton and pharmacy items. We sell our tissue, towel and napkin products through both retail and commercial (away-from-home) distribution channels in Europe. Approximately 74% of our European towel and tissue sales were into retail distribution channels and 26% were into away-from-home and other channels.

Our principal European brands include Lotus bathroom tissue and facial tissues (both hold the number one position in France), Moltonel bathroom tissue (the number two tissue in France), Lotus kitchen towels (the number one kitchen towel in the Netherlands), O Kay kitchen towels (the number one kitchen towel in France), Colhogar kitchen towels and bathroom tissue (both hold number one positions in Spain), KittenSoft towels and bathroom tissue (both hold number one positions in Ireland), EMBO bathroom tissue (the number one tissue in Finland), Tenderly bathroom tissue (the number three tissue in Italy), Delica kitchen towels, napkins and bathroom tissue (the number one towel and napkins and number two bath tissue in Greece), Vania feminine hygiene products (one of the leaders in France), Selpak premium tissue products (the leader in Turkey) and Demak Up cosmetic facial pads (the leader in Europe).

Our largest European operations are in France and the United Kingdom, which combined account for approximately 65% of our European tissue sales. Aggregating at-home branded, private label and away-from-home production, we believe we are the largest producer of tissue products in France, Finland, Ireland, and Turkey and the second largest producer in the United Kingdom and Greece.

Packaging

The packaging segment focuses on providing packaging solutions for a wide variety of industrial customers. Its primary products include corrugated containers and containerboard. Our four containerboard mills rank fourth in both U.S. and North American containerboard production with a capacity of 3.7 million tons, approximately 10% of the 37 million ton U.S. capacity and 9% of the 40 million ton North American capacity. The containerboard mills produce unbleached linerboard and medium, in roll form that is shipped to converting facilities. The packaging segment is the third largest supplier of containerboard to independent converters in the United States.

We have three principal types of converting facilities: corrugated box plants, which fabricate corrugated sheets from containerboard and print, cut, fold and join them to create finished boxes; sheet feeders, which also fabricate corrugated sheets and then deliver them to other converters who complete the finished box; and graphic packaging facilities, which fabricate corrugated sheets and utilize graphic capabilities and design techniques to meet specialized customer requirements. The segment s 54 converting plants consume approximately 70% of the segment s containerboard production; the remainder is sold to independent box converters in the United States, Latin America and Asia. We are the fourth largest supplier of corrugated containers in the United States. We supply corrugated containers to the food, agriculture, paper and other manufacturing industries.

In addition to standard corrugated containers, the segment s packaging plants supply many specialty-packaging products. These include display-ready corrugated packaging that works interchangeably with our line of reusable plastic containers, double and triple-wall boxes, bulk bins, water-resistant packaging, and high-finish and preprinted packaging for point-of-sale displays. Our Color-Box subsidiary produces high quality litho-laminated packaging at eight specialty printing, coating and converting facilities. It is the largest litho-laminate corrugated manufacturer in North America.

During 2003 we sold $565 million of containerboard and $2,104 million of packaging to third party customers. These sales represent 13% of the company s sales. Markets for containerboard and packaging products are affected primarily by changes in industry capacity, the level of industrial activity in the United States, and export markets. Containerboard exports totaled 287,000 tons during 2003 compared to 2002 s level of 248,000 tons. In 2003, exports for the packaging segment were $120 million, or 4% of segment net sales. We opened our Innovation Institute, a

$2 million renovation of our technology and development center, in 2003.

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Bleached Pulp and Paper

The bleached pulp and paper segment produces market pulp, paper and other products at nine facilities in North America. Combined production capacity for pulp and paper is 3.7 million tons. The bleached pulp and paper segment s mills are among the industry s lowest cost producers. Exports from this business segment consist chiefly of market pulp bound for Asia, Europe, and Latin America. In 2003, exports for the bleached pulp and paper segment were $501 million, or 19% of segment sales. Markets for pulp and paper products are affected primarily by levels of white-collar employment and economic growth, industry production capacity and inventory levels, and by fluctuations in currency exchange rates.

Pulp. We rank ninth in the production of market pulp worldwide. The bleached pulp and paper segment s three pulp mills have a combined annual capacity of nearly 1.7 million tons, approximately 19% of United States capacity. In 2003 we sold $644 million of market pulp, which represented 30% of the bleached pulp and paper segment sales to third party customers. Our mills produce primarily Southern softwood and Northern hardwood pulps sold to industrial users for the manufacture of many paper grades. One of these mills, our Brunswick facility, is the largest fluff pulp production facility in the world. It produces approximately 850,000 tons annually, making us the second largest producer of fluff pulp in the world. Fluff pulp is used primarily in the manufacture of disposable diapers and other sanitary items. Fluff pulp is sold under the name GoldenIsles. On January 29, 2004, we announced that we had signed a letter of intent for Koch Industries, Inc., to acquire our stand-alone pulp mills at Brunswick, Georgia, and New Augusta, Mississippi, for $610 million, including the assumption of $73 million of indebtedness. Net cash proceeds that may result from any sale of these businesses will be used to reduce outstanding debt.

Paper. We are the fifth largest North American producer of uncoated free-sheet paper. Uncoated free-sheet paper is used in office copy machines and printers, home printers, commercial printing, business forms, stationery, tablets, books, envelopes, labels and checks. The bleached pulp and paper segment s four uncoated free-sheet paper mills have a combined annual capacity of 1.1 million tons, approximately 7% of North American capacity. These products are sold through paper distributors, retailers, office product distributors, printing equipment manufacturers, and converters. We believe our retail office paper products have the number one share in the growing warehouse club and mass merchandiser channels. Products are sold under a variety of brand names, including Georgia-Pacific, Xerox, Spectrum, Eureka and GeoCycle. Paper sales of $960 million in 2003 were 45% of the bleached pulp and paper segment s sales to third party customers.

In November 2003, we announced the shut down of a communications paper machine located at our Camas, Washington mill. The 70,000 tons of paper associated with this closure represents almost 6% of our 2003 capacity.

Bleached Board. The bleached pulp and paper segment manufactures approximately 600,000 tons of bleached paper board annually for use in frozen food containers, food service items and other products. The combined bleached board capacities at Naheola, Alabama and Crossett, Arkansas make us the fourth largest bleached board producer in North America. Brand names include Signature Solutions and NuBrite. In 2003, bleached board sales of $224 million were 11% of the total segment sales to third party customers.

Kraft. The Palatka, Florida facility manufactures approximately 300,000 tons of natural and bleached Kraft paper. Products are sold primarily to industrial users for conversion into multi-wall paper bags that are ultimately used to package a variety of consumer and commercial products. With an approximately 19% market share, we hold the number two share position among Kraft producers. Brand names include Multikraft, Flowkraft and PressKraft.

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Paper Distribution. The operating results from our 40% equity investment in Unisource, our former paper distribution business, are reported in the bleached pulp and paper segment. In November 2002, we sold a 60% controlling interest in Unisource to an affiliate of Bain Capital, LLC.

Building Products Manufacturing

We are one of the leading manufacturers of building products in the United States. Our building products manufacturing segment manufactures wood panels (including plywood, oriented strand board (OSB) and industrial panels), lumber, gypsum products, chemicals and other products. These products are manufactured at 127 facilities in the United States, seven plants in Canada, four plants in South America, and a joint venture facility in South Africa. These products are sold directly to industrial customers, independent dealers and wholesalers, and large building product retailers or through our building products distribution business.

The building products business is affected by the level of housing starts; the level of home repairs, remodeling and additions; industrial and commercial building activity; the availability and cost of financing; and changes in industry capacity. The demand for building products tends to be stronger during the second and third quarters when weather conditions favor construction. Exports for the building products manufacturing segment in 2003 were $120 million (2% of segment sales), primarily to the Caribbean and Europe.

Building products manufacturing is organized into five divisions:

Structural Panels. Based on production capacity of 8.7 billion square feet, we are the largest producer of structural wood panels in North America. We account for approximately 19% of North American panel capacity. The division s 20 softwood plywood plants annual capacity of approximately 6.5 billion square feet represents approximately 32% of North American capacity. Our six OSB plants can produce 2.2 billion square feet or 9% of annual North American capacity. With most of these plants located in the Southeast, the business benefits from an ample supply of timber, favorable weather conditions, regional population growth, national economic growth and other factors. Two facilities manufacture engineered lumber products. Demand for the building products segment s engineered lumber products has increased in recent years as wood I-joists (made from veneer, OSB and sawn lumber) have increasingly become the product of choice for floor joist applications. Laminated veneer lumber (LVL) and wood I-joists are designed to meet the precise structural performance requirements of roofing and flooring systems. The segment produces both LVL and I-joists. The $1,349 million in sales of both structural and industrial wood panels was 36% of the segment s 2003 sales to third party customers. During 2003, in order to distinguish our plywood products we branded our family of southern plywood products under the name Plytanium.

Industrial Wood Products. The building products manufacturing segment is the largest producer of industrial wood panels and the fourth largest producer of hardwood plywood in North America. The division s particleboard plants produce more than 1.1 billion square feet of panels annually, which is approximately 16% of U.S. and Canadian capacity. We believe we are the largest producer of particleboard flooring, and currently supply more than 35% of the flooring substrate for the manufactured housing market. Sixteen mills manufacture composite panels of particleboard, medium-density fiberboard (MDF), hardboard and softboard, as well as hardwood plywood, interior decorative panels and thermally fused melamine panels. Applications include furniture, cabinets, housing, retail fixtures, and other industrial products. During 2003, we closed particleboard plants in Monticello, Georgia and Oxford, Mississippi; these plants represented 19% of our particleboard capacity.

Lumber. As the fourth largest lumber producer in North America, we have the capacity to manufacture approximately 2.4 billion board feet annually, or approximately 4% of North American lumber production. During 2003, lumber sales of $993 million represented 26% of building products manufacturing total sales. Most of our 29 lumber mills are located in the Southern United States. Lumber products are manufactured from

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Southern pine, a variety of Appalachian and Southern hardwoods, cedar, spruce, hemlock and Douglas fir. During the first quarter of 2003, we closed a southern pine sawmill in Wakefield, Virginia. Wakefield produced approximately 2% of our southern pine lumber. Additionally, in the fourth quarter of 2003, we sold a hardwood sawmill in Buena Vista, Virginia that was responsible for 15% of our Appalachian hardwood production.

We are one of the top producers of pressure-treated lumber in the nation. Approximately 36% of our southern pine lumber production is pressure-treated to protect it for use in outdoor applications such as decks, fences, bridges and playground equipment. We own six pressure-treated lumber plants, two of which are currently idle. Southeast Wood Treating, Inc. operates four of our treating facilities as well as seven additional plants that it owns. With production from those 11 facilities, the building products business can sell more than one billion board feet of treated lumber annually.

Gypsum Products. We operate 18 gypsum board plants throughout the United States and Canada, with an annual capacity of 6.5 billion square feet and are the third largest gypsum wallboard producer in North America. In 2003, the $711 million in gypsum product sales represented 19% of all building products manufacturing sales to third party customers. Gypsum products include wallboard, specialty panels, fire-door cores, industrial plaster and joint compound. The business is substantially vertically integrated in paper and gypsum rock, operating three recycled gypsum paperboard mills and nine gypsum quarries/mines. Gypsum reserves are approximately 284 million recoverable tons, an estimated 72-year supply at current production rates.

As part of our corporate strategy to differentiate our commodity products through value adding qualities, we introduced the Dens® family of products. Dens® products are based on patented, innovative, glass mat technology and offer exclusive performance features such as unmatched moisture and mold resistance, performance and strength characteristics. In the first quarter of 2004, we plan to restart our idled Savannah gypsum plant. Savannah will focus its production on our higher margin Dens® products. Additionally, we are one of only two mineral fire door core producers in the U.S. as well as a major producer of mineral fire stop door components. We produce almost 50% of the value-added industrial plaster in the United States.

Chemicals. Our chemical business is a leading supplier of wood bonding resins, industrial thermosetting resins, formaldehyde, paper chemicals, and tall oil based chemicals. These chemicals and resins are used in a variety of specialty applications, including production of wood panels, papermaking, roofing, thermal insulation, metalworking, coatings, fertilizers, and transportation. The chemical business ships more than four billion pounds of bonding and thermosetting resins, formaldehyde, pine chemicals, and paper chemicals annually from 16 United States and four South American plants in Chile, Argentina and Brazil. The business also operates through a joint venture in South Africa. In October 2003, we idled our White City, Oregon thermosetting resin and formaldehyde plant. The White City plant s annual capacity of thermosetting resins and formaldehyde represents 6% and 10%, respectively, of the total capacity of the division. Also in October 2003, we acquired a thermosetting resin business in Brazil, including one formaldehyde plant with 120 million pounds of annual capacity and two resin plants with 163 million pounds of annual capacity.

Building Products Distribution

Our building products distribution business is the leading domestic wholesaler of building products. We sell building products to independent dealers, industrial customers and large home improvement centers from two sales centers in North America and distribute product from 63 warehouse locations throughout the United States and one in Canada. The building products distribution business provides a nationwide outlet for a significant portion of our lumber and structural panel products. Approximately 67% of the business sales are building products purchased from third parties. We believe that our building products distribution business geographic coverage and product breadth are unmatched in North America. In September 2003, we announced that we were exploring strategic alternatives for our building products distribution business, including its possible sale. Any net cash proceeds that may result from a sale of this business would be used to reduce outstanding debt.

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Additional Information

Additional information pertaining to our businesses, including operating segments, is set forth under the captions Georgia-Pacific Corporation and Subsidiaries Management s Discussion and Analysis and Georgia-Pacific Corporation and Subsidiaries Sales and Operating Profits by Operating Segment and presented in Notes 1 and 3 of our Notes to Consolidated Financial Statements, under Item 8 of this Form 10-K.

Our reports on Form 10-K, along with all other reports and amendments filed with or furnished to the SEC, are publicly available free of charge on the Investor Information section of our Internet website, at *www.gp.com*. The information contained on or connected to our Internet website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.

Timber Resources

The principal raw material we use is timber and wood fiber. We no longer own any timberlands. During 2003, Plum Creek supplied 8% of our overall timber requirements. We purchase our remaining timber requirements from third-party landowners in the open market. No single supplier supplies more than 10% of our timber requirements.

When the merger of our timber business into Plum Creek was completed in 2001, we entered into a timber supply agreement with Plum Creek that is effective for 10 years and subject to an automatic ten-year renewal period, unless either party delivers a timely termination notice. This agreement covers four key southern timber basins: Southeast Arkansas, Mississippi, Florida and Southeast Georgia. Under the agreement, Plum Creek must offer to Georgia-Pacific specified percentages of its annual harvest, subject to absolute minimum and maximum limitations in each basin. Georgia-Pacific can elect between 36% and 51% of such annual harvest each year in Mississippi, Florida and Southeast Georgia, and between 52% and 65% in Southeast Arkansas. The total annual softwood volume ranges from a minimum of 3.3 million tons to a maximum of 4.2 million tons. The prices for such timber are negotiated with Plum Creek every six months, and will be set by third party arbitration if the parties cannot agree. For further information, see Note 18 of the Notes to Consolidated Financial Statements.

Mineral Reserves

Information pertaining to our gypsum reserves is set forth under the captions Georgia-Pacific Group Building Products Gypsum Products in this item.

Environment

Information pertaining to environmental issues and our expenditures for pollution control facilities and equipment is set forth under the captions Georgia-Pacific Corporation and Subsidiaries Management s Discussion and Analysis Liquidity and Capital Resources Investing Activities and Note 17 of the Notes to Consolidated Financial Statements, and is presented under Items 7 and 8 of this Form 10-K.

Employees

Information pertaining to persons employed by us is set forth under the captions Georgia-Pacific Corporation and Subsidiaries Management s Discussion and Analysis Liquidity and Capital Resources Other , presented under Item 7 of this Form 10-K.

Patents, Copyrights, Licenses, Trade Secrets and Trademarks

We own numerous patents, copyrights, trademarks, licenses and trade secrets, as well as substantial know-how and technology (herein collectively referred to as technology) relating to our products and the processes for their production, the packages used for our products, the design and operation of various processes and equipment used in our business, and certain quality assurance and financial software. The methods for manufacturing and processing our products are among our important trade secrets.

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We also own numerous trademarks, which are very important to our business, especially our consumer products businesses. Depending on the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained and they have not become generic. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use. We have registered and licensed the right to use our trademarks in conjunction with certain products we do not manufacture. In part, our success can be attributed to the existence of our trademarks.

ITEM 2. PROPERTIES

The geographic location and capacity of our manufacturing facilities by segment is set forth on Exhibit 99.1 hereto which is hereby incorporated herein by this reference.

Our manufacturing and support facilities are designed according to the requirements of the products to be manufactured. Therefore, the type of construction varies from facility to facility. Management believes that its manufacturing facilities, taken as a whole, are well-maintained and generally adequate for current operations.

Utilization of a particular facility varies based upon demand for the product. We have included the estimated capacity of our principal facilities in Exhibit 99.1, which is incorporated herein by reference thereto.

We generally own our manufacturing and other facilities, although warehouse and office facilities are often leased. We examine alternatives for our higher cost facilities, including modernizing, replacing or closing such facilities. We continually review many business opportunities and alternatives, including possible acquisitions or sales of properties.

Information concerning our timber and mineral resources is presented under Item 1 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

Information pertaining to our Legal Proceedings is set forth in Note 17 of our Consolidated Financial Statements which are presented under Item 8 of this Form 10-K and are incorporated herein by reference thereto.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Georgia-Pacific common stock is listed on the New York Stock Exchange and trades under the symbol GP. As of the close of business on January 23, 2004, the closing stock price of one share of Georgia-Pacific common stock was $29.15 and there were approximately 39,075 record holders of such stock.

Information with respect to the Market for our Common Equity and Related Stockholder Matters is set forth in a table under the captions Selected Financial Data Financial Position, End of Year that follows Note 20 of the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K, which is incorporated herein by reference thereto.

We expect to continue to pay quarterly dividends in the amounts set forth in Selected Financial Data Financial Position, End of Year under Item 8 of this Form 10-K, which dividend information is incorporated herein by reference thereto.

ITEM 6. SELECTED FINANCIAL DATA

Information with respect to our Selected Financial Data is set forth under the captions Selected Financial Data Operations Georgia-Pacific Corporation and Subsidiaries and Selected Financial Data Financial Position, End of Year, following Note 20 which are presented under Item 8 of this Form 10-K, and are incorporated herein by reference thereto.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion summarizes the significant factors affecting our results of operations and financial condition during the three fiscal years ended January 3, 2004. This discussion should be read in conjunction with the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Supplemental Information in Item 8 of this report on Form 10-K.

We are engaged in four principal business operations: the manufacture of tissue products (including bath tissue, paper towels and napkins) and disposable tabletop products (including disposable cups, plates and cutlery); the manufacture of containerboard and packaging (including linerboard, medium, kraft and corrugated packaging); the manufacture of bleached pulp and paper (including paper, market and fluff pulp, and bleached board) and the manufacture and distribution of building products (including plywood, oriented strand board, various industrial wood products, softwood and hardwood lumber, and certain non-wood products including gypsum board, chemicals and other products).

Overview

Our strategy is to improve our portfolio of businesses by investing in businesses that are high value-added and that position Georgia-Pacific closer to consumers, and by divesting or exiting non-strategic businesses. A key component of that strategy is improving our bath tissue, paper towel and napkin business, which is commonly referred to as the tissue business. We believe that our acquisition of Fort James Corporation (Fort James) in late 2000 directly facilitated that strategy. In our other paper and forest products businesses, we are focused on maximizing cash returns by differentiating our products and partnering with our customers to improve supply chain efficiencies.

In 2001, in connection with the redirection of our focus away from commodity-based businesses, we sold a portion of our pulp and paper assets to Domtar Inc. and completed the spin off of our timber business and its

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merger into Plum Creek. In May 2002, our board of directors approved a plan to separate our consumer products, packaging and bleached pulp and paper businesses (along with our interest in the Unisource paper distribution business) from our building products manufacturing and distribution business. After this separation, Georgia-Pacific Corporation would have consisted only of our building products manufacturing and distribution businesses. In September 2002, this separation was indefinitely suspended in light of conditions in the financial and capital markets, weak operating results in our commodity products businesses, and the market s perception of our asbestos liabilities. In 2002, we sold a 60% controlling interest in our Unisource paper distribution business.

In September 2003, we announced that we were exploring strategic alternatives for our building products distribution business, including its possible sale. On January 29, 2004, we announced that we had signed a letter of intent for Koch Industries, Inc., to acquire our stand-alone pulp mills at Brunswick, Georgia, and New Augusta, Mississippi, for $610 million, including the assumption of $73 million of indebtedness. Net cash proceeds that may result from the sale of any of these businesses will be used to reduce outstanding debt.

In addition to our strategic initiatives, the primary issues that affect us are economic conditions in the United States and Europe, the levels of supply and demand in the paper and forest products industry, our debt and liquidity, and uncertainty about our total asbestos liability.

Industry Conditions

Most of our businesses have experienced weak industry conditions during the past three years. Industry productive capacity has generally exceeded demand, resulting in cyclically low prices. Consequently, operating results for our consumer products, packaging and bleached pulp and paper business have declined each year since 2000. Factors that have negatively impacted the supply/demand balance over the period include:

- sluggish economic growth in the U.S. and export markets,
- increased paper and forest product production capacity outside the United States,
- weak employment conditions,
- lower U.S. industrial output as production shifts to other regions of the world,
- a decline in U.S commercial construction, and
- increased energy and wastepaper costs

Our building products business was an exception in 2003, as a result of very high prices for structural wood panels in the second half of the year. Low industry inventories and a weather-delayed seasonal pickup in housing starts combined to create a temporary, but severe, supply/demand imbalance. A very strong U.S. residential housing construction market, in spite of declining demand from commercial construction and industrial markets, has supported building products demand over the past three years.

We are continuously focused on maximizing the efficiency of our manufacturing and logistics systems, and in light of industry conditions we have shut down a number of facilities and machines during the past three years. These have resulted in asset impairment charges and severance costs, which are more specifically discussed in the following segment discussions and in the Notes to Consolidated Financial Statements.

Our strategic initiative to move away from the commodity end of our product spectrum toward more consumer products and value-added services is intended to mitigate, to some extent, the impact of commodity cycles and increase our profit margins. Over the past three years, we have introduced a number of new and improved specialty products with qualities that differentiate them from industry commodities, provide additional value to customers and consumers, and sell at a premium. We have also focused on developing supply chain solutions, which reduce the costs of warehousing, transportation, handling and waste, and are able to share these savings with our customers.

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Debt and Liquidity

Our senior management has established the parameters of our financial policies, which have been approved by our board of directors. These include balancing our debt and equity to keep our weighted average cost of capital low while retaining the flexibility needed to ensure we can meet our financial obligations when or before they come due and to finance attractive business opportunities. Historically, our policy has been to set debt targets based on our cash generating capability under various business scenarios. We experience variances in cash flow from period to period and various methods are utilized to reasonably estimate possible deviations in estimated future cash flows.

We maintain a high portion of our debt as long-term at fixed interest rates. We intend to manage the maturities of our long-term debt (excluding bank debt) so that no more than $500 million matures in any one year and if it does then the sum of the maturities of any two consecutive years does not significantly exceed $1 billion. Generally, we seek to have 75% of our aggregate debt at fixed rates so as to minimize exposure to fluctuating interest rates. Short-term debt is used in modest proportions and generally for seasonal working capital variations and/or financing some of our accounts receivable. We utilize bank credits for temporary short- and/or intermediate-term financing usually bridging known or expected events. Additionally, we maintain committed, available borrowing capacity to allow for seasonal, timing or unexpected needs. As of January 3, 2004, unused capacity under our Multi-Year Revolving Credit Facility was $1,629 million. For further discussion of the unused capacity, see the tables that follow.

We continuously review our financing policy to determine the appropriate level of debt to employ in our capital structure to provide the necessary flexibility to finance future growth and investment opportunities.

In November 2000, our acquisition of Fort James increased our debt level to almost $16 billion, approximately $7 billion more than the total debt of the two companies prior to the acquisition. Since that time, our higher debt level, liquidity concerns, poor industry conditions for commodity paper and forest products, and perceptions about our asbestos liabilities were key factors that caused downgrades of our debt ratings by the major ratings agencies. Consistent with our goal of reducing debt and returning to investment-grade debt ratings, we have focused on generating cash from operations, monetizing non-strategic assets, controlling capital expenditures and reducing working capital requirements. As a result, we have paid down almost $5 billion of debt since the Fort James acquisition, including $868 million in 2003, despite the generally weak business conditions during this period.

At the beginning of 2003, we had $1.3 billion of debt maturing in 2003, with available unused credit under bank credit agreements of $789 million. Combined with poor industry operating conditions, this resulted in investors   concerns about the company   s near-term liquidity. We believe we resolved those concerns during 2003 by issuing $2.5 billion of new, longer-term debt. Proceeds from debt issues, together with free cash flow, were used to reduce borrowings under our bank credit agreements by $2.8 billion, and repay approximately $600 million of other debt, which matured in 2003. As of year-end 2003, our average annual debt maturity through 2008 is $491 million, with no more than $789 million maturing in any single year.

Asbestos

We, and many other companies, are defendants in suits brought in various courts around the nation by plaintiffs who allege that they have suffered personal injury as a result of exposure to asbestos-containing products. Our asbestos liabilities relate primarily to joint systems products manufactured by Bestwall Gypsum Company and our gypsum business that contained small amounts of asbestos fiber. We acquired Bestwall in 1965, and discontinued using asbestos in the manufacture of these products in 1977. These suits allege a variety of lung and other diseases based on alleged exposure to our products. In many cases, the plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of their exposure, or that any injuries they have incurred did in fact result from exposure to our products. Most asbestos suits involve multiple claimants seeking money damages and virtually all asbestos suits involve multiple defendants. Historically, the vast majority of claims against us have been resolved either by settlement or dismissal, rather than by jury verdicts.

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Beginning in 2001, and again at the end of 2002 and 2003, we retained nationally recognized consultants in asbestos liability and insurance to work with us to estimate the amounts, net of insurance, that we would pay for our asbestos-related liabilities and defense costs for the following 10-year periods. At the end of 2001 we recorded an initial liability of $350 million to cover the projected asbestos liabilities and defense costs, net of expected insurance recoveries, we expected to pay through 2011. At the end of 2002, we increased our reserve, net of expected insurance recoveries, by $315 million to add the estimated net cost for 2012, and to increase our estimated liability for years 2003 through 2012 based on actual costs in 2002, which were higher than expected.

Our actual 2003 claims experience was in line with the underlying assumptions we used to determine our projected asbestos liability at the end of 2002. Also during the year, we completed agreements with two insurers of asbestos liabilities which generally provide that we will be able to recover more insurance from those carriers than we had assumed when we were projecting our insurance receivables in 2002. After adjusting our estimated receivables and adding an estimate of our net costs for 2013, our total 10-year net liability at the end of 2003 was $451 million, compared with $492 million at the end of 2002. The following table details the activity in our asbestos liability and receivable balances during 2003:

	(in millions)
Asbestos liabilities	
Beginning balance	$ 1,162
Accruals	54
Payments	(189)
Ending balance	$ 1,027
Insurance receivable	
Beginning balance	$ 670
Accruals	156
Receipts	(250)
Ending balance	$ 576

In recent years federal and state legislators have considered proposals for tort reform generally, and to deal with asbestos litigation in particular. Tort reform legislation has been enacted in some states where large numbers of claims have been filed against us, but because this legislation is relatively new, we are not able to assess its effect as yet. In the United States Senate, the Fairness in Asbestos Injury Resolution Act was introduced in 2003, and approved by the Senate Judiciary Committee. This act would create a national trust fund, to be funded by companies and insurers which have asbestos liability. The fund would pay claims of asbestos victims and generally end litigation alleging personal injury caused by asbestos in federal and state courts. The provisions of this bill remain a subject of intense debate among industry, insurers, the asbestos plaintiff s bar, organized labor and others. The Senate Majority Leader has stated that he intends to bring a modified version of the bill passed by the Judiciary Committee to a floor vote in the Senate in March 2004. We are supportive of this legislation since we believe it would result in fairer treatment of everyone affected by asbestos.

For further information regarding our asbestos matters, see Note 17 of the Notes to Consolidated Financial Statements.

2003 Compared with 2002

We reported consolidated net sales of $20.3 billion and net income of $254 million for 2003, compared with net sales of $23.3 billion and a net loss of $735 million in 2002.

Interest expense was $833 million in 2003, compared with $841 million in 2002. The decrease is the result of lower debt levels, including the PEPS Units that were redeemed during the third quarter of 2002, offset

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somewhat by higher average interest rates. The higher average interest rates resulted primarily from refinancing $2.5 billion of lower rate, shorter-term debt in 2003 by issuing $2.5 billion of higher rate, longer-term debt.

We reported income from continuing operations before income taxes of $335 million and an income tax provision of $109 million for the year ended January 3, 2004, compared with a loss from continuing operations before income taxes of $508 million and an income tax benefit of $318 million for the year ended December 28, 2002. The effective rate in 2003 was different from the statutory rate primarily because of the write-off of nondeductible goodwill (see Note 7 of the Notes to Consolidated Financial Statements), offset by lower international income tax rates, utilization of state and foreign tax credits and favorable tax audit settlements. The effective rate in 2002 was different from the statutory rate primarily because of the write-off of nondeductible goodwill (see Note 7 of the Notes to Consolidated Financial Statements) and because of tax benefits resulting from the loss on the sale of a controlling 60% interest in the Unisource paper distribution business (see Note 4 of the Notes to Consolidated Financial Statements).

During 2003 and 2002, we recorded a net pre-tax charge to earnings of $16 million ($10 million after tax) and $315 million ($198 million after tax), respectively, to cover projected asbestos liabilities and defense costs through 2013 and 2012, respectively, net of insurance recoveries (see Note 17 of the Notes to Consolidated Financial Statements). We intend to annually update our estimate of asbestos liabilities, defense costs and insurance recoveries and make adjustments to such reserves as required by generally accepted accounting principles.

In November 2002, we completed the sale of a controlling 60% interest in our Unisource paper distribution business and recorded a pre-tax loss of $298 million ($30 million after tax). Unisource is reported as the paper distribution segment for the first ten months of 2002 and for all of 2001. Effective in November 2002, we began reporting the results from the 40% interest we retained in Unisource in the bleached pulp and paper segment.

Our fiscal year ends on the Saturday closest to December 31. Typically, our fiscal year consists of 52 weeks ending on Saturday. However, because the current fiscal year ended on January 3, 2004, our fiscal year 2003 consisted of 53 weeks.

The remaining discussion refers to the Selected Operating Segment Data table below which should be read in conjunction with the more detailed segment information set forth in Note 3 of the Notes to Consolidated Financial Statements and in Sales and Operating Profits by Operating Segment.

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SELECTED OPERATING SEGMENT DATA

Georgia-Pacific Corporation and Subsidiaries

In millions	Fiscal Year Ended 2003	Fiscal Year Ended 2002	Fiscal Year Ended 2001
Net sales:			
North America consumer products	$ 5,434	$ 5,455	$ 5,441
International consumer products	1,941	1,663	1,590
Packaging	2,789	2,741	2,626
Bleached pulp and paper	2,681	2,544	3,220
Paper distribution		4,755	6,213
Building products manufacturing	5,844	5,117	5,256
Building products distribution	4,307	3,785	3,822
Other*	(2,741)	(2,789)	(3,152)
Total net sales	$ 20,255	$ 23,271	$ 25,016

	2003	Return on Net Sales**	2002	Return on Net Sales**	2001	Return on Net Sales**
Operating profits (losses):						
North America consumer products[(a)]	$ 601	11%	$ 851	16%	$ 663	12%
International consumer products[(b)]	160	8	141	8	126	8
Packaging[(c)]	345	12	323	12	388	15
Bleached pulp and paper[(d)]	(133)	(5)	58	2	25	1
Paper distribution[(e)]			(516)	(11)	48	1
Building products manufacturing[(f)]	379	6	129	3	83	2
Building products distribution	98	2	50	1	65	2
Other	(282)	NM	(703)	NM	(632)	NM
Operating profits	1,168	6	333	1	766	3
Interest expense	833		841		1,080	
Income (loss) from continuing operations before income taxes	335		(508)		(314)	
Provision (benefit) for income taxes	109		(318)		174	
Income (loss) from continuing operations	226		(190)		(488)	
Income from discontinued operations, net of taxes					70	
Income (loss) before accounting changes	226		(190)		(418)	
Cumulative effect of accounting changes, net of taxes	28		(545)		11	

Net (loss) income	$ 254	$ (735)	$ (407)

* Includes the elimination of intersegment sales.
** Return on Net Sales percentage is calculated by dividing the respective operating profit (losses) by net sales for each segment.
NM Not meaningful

(a) 2003 operating profit includes asset impairment/restructuring charges of $81 million offset by a $66 million credit adjustment of environmental reserves; 2002 operating profit includes restructuring charges of $18 million; 2001 operating results include restructuring charges of $83 million and $156 million of goodwill amortization.
(b) 2003 operating profit includes restructuring charges of $15 million; 2001 operating profit includes goodwill amortization of $13 million.
(c) 2003 operating profit includes $68 million of gains on asset sales; 2001 operating profit includes goodwill amortization of $21 million.
(d) 2003 operating profit includes asset impairment charges of $162 million and a $15 million loss from our equity investment in Unisource; 2002 operating profit includes a $3 million loss from our equity investment in Unisource; 2001 operating profit includes a $63 million loss on asset sales and goodwill amortization of $23 million.
(e) 2002 operating loss includes asset impairment charges of $208 million and a loss on the sale of the business of $298 million.
(f) 2003 operating profit includes asset impairment/restructuring charges of $40 million; 2001 operating profit includes restructuring charges of $93 million and goodwill amortization of $3 million.

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North America Consumer Products

Our North America consumer products segment reported net sales of $5.4 billion and operating profits of $601 million in 2003, compared with net sales of $5.5 billion and operating profits of $851 million in 2002. Included in the 2003 operating results were a pre-tax credit of $66 million related to the reversal of excess environmental reserves and pre-tax charges of $67 million for asset impairment, severance and business reorganization costs related to the closure of tissue-manufacturing and converting operations at our Old Town, Maine mill (see Note 5 of the Notes to Consolidated Financial Statements) and our Dixie and tissue businesses, and $14 million of other various restructuring charges. Included in the 2002 operating results were charges of $18 million primarily related to severance and facility closure costs. The decrease in 2003 operating earnings was primarily due to a decline in commercial tissue sales volumes, lower selling prices for retail tissue, higher fiber, natural gas and petroleum-based resin costs and start-up costs associated with the launch of our improved Brawny towels and Quilted Northern bath tissue.

During 2003, industry growth in the retail tissue, commercial tissue and tabletop categories was below historical averages. Our retail business maintained bath tissue market share during 2003, while growing towel market share. However, retail selling prices declined 3% during the year as a result of heavy trade promotion activity. In the fourth quarter of 2003, we were able to improve our net selling prices in retail tissue by 2% and anticipate continued modest improvements in 2004 as a result of our product improvements. Lingering United States unemployment continued to perpetuate a weak commercial tissue market. Additionally, the commercial tissue market suffered from excess capacity in 2003, caused in part by the purchase and restarting of production at tissue mills that had been idled by their previous owner. Our commercial tissue business was able to improve selling prices by 2% during 2003 due to first-half price increases.

Our Dixie business was able to improve market share in the retail channel through the growth of Krazy Kritters plates & cups, Coca-Cola cups and the launch of Dixie Ware disposable storage containers. The launch of our To Go products drove improved profitability in the foodservice channel for Dixie. Profits in our Dixie business declined due to an increase in resin costs which offset the impact of improved sales prices.

Raw material inflationary pressure increased in 2003. We anticipate additional inflation in fiber, natural gas and resin during 2004. We also expect general economic conditions to improve and category growth to return to historical averages of 2-3%.

In December 2003, we shut down certain high cost tissue machines, and shifted production to lower cost facilities including those using the through-air-dried technology. As a result of these shut downs, we wrote off the value of the machines and recorded a pre-tax charge of $21 million in the fourth quarter in 2003. Additionally, in April 2003, we announced that we would close the tissue-manufacturing and converting operations at our Old Town, Maine mill and recorded a pre-tax charge of $35 million. The determination to close the tissue operations was due to excess tissue production capacity in our business generally, the mill s geographic location, and high energy and fiber costs. Due to excess capacity in our Dixie business, we made the decision to shut down certain high-cost Dixie operations and shifted that production to other lower cost facilities. As a result of these shutdowns we recognized a pre-tax charge of $11 million in the fourth quarter of 2003. For further information regarding these charges, see Note 5 of the Notes to Consolidated Financial Statements.

In late July of 2003, the Wisconsin Department of Natural Resources issued a Record of Decision (ROD) setting forth a cleanup plan for the lower portions of the Fox River, including the area into which the Fort James mill discharged wastewater. We completed our analysis of the ROD in order to understand its critical assumptions, including among others the volume of sediment to be dredged, the assumed cost of such dredging, the methods of disposing of the dredged wastes, and the use of remedies other than dredging. Based on our analysis, we determined that the part of the cleanup costs for which we will be responsible is less than the amount we previously reserved. Accordingly, in the fourth quarter of 2003 we recorded a pre-tax credit of $66 million in the North America consumer products segment to reverse a portion of the Fox River environmental clean up reserve. See Note 17 of the Notes to Consolidated Financial Statements for further information.

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International Consumer Products

The international consumer products segment reported net sales of $1.9 billion and operating profits of $160 million in 2003, compared with net sales and operating profits of $1.7 billion and $141 million, respectively, in 2002. Included in the 2003 operating results were pre-tax charges of $15 million related to employee termination costs. During the fourth quarter of 2003, we committed to a significant overhead reduction in our United Kingdom business, as a result of our cost improvement strategy**.** During 2003, the United States dollar weakened against the functional currencies of the businesses in the international consumer products segment. The impact of the change in foreign currency exchange rates was to increase net sales and operating profits in 2003 by $279 million and $27 million, respectively. The operating environment in Europe is expected to remain competitive in 2004, particularly in the United Kingdom.

Packaging

The packaging segment reported net sales of $2.8 billion and operating profits of $345 million in 2003, compared with net sales of $2.7 billion and operating profits of $323 million in 2002. Included in the 2003 operating results was an $18 million pre-tax gain on the sale of some packaging assets and a $50 million pre-tax gain on the sale of most of our railroad operations (see Note 4 of the Notes to Consolidated Financial Statements). Net of asset sales, the decline in operating profits is primarily due to market pricing pressures experienced during the year, and higher labor, benefits, wood and natural gas costs. While raw material inflationary pressure leveled off in the second half of 2003, we expect to continue to contend with high secondary fiber and fuel costs, and moderating demand and pricing in 2004. We expect prices to increase with changes in the economy and overall demand for packaging or to offset higher operating costs.

Bleached Pulp and Paper

The bleached pulp and paper segment reported net sales of $2.7 billion and an operating loss of $133 million in 2003. In 2002, the segment reported net sales of $2.5 billion and operating profits of $58 million. Included in the 2003 operating results is an impairment charge of $49 million related to our Old Town, Maine, pulp mill, a goodwill impairment charge of $106 million related to our New Augusta, Mississippi pulp operations, other impairment charges of $7 million, and a $15 million loss from our equity investment in Unisource and $9 million of other expenses related to Unisource. Included in the 2002 operating results is a $3 million loss from our equity investment in Unisource and other related costs.

During 2003, fluff pulp sales volumes increased 9% as the New Augusta, Mississippi mill initiated production of fluff pulp, and successfully executed a sales shift from market pulp. Market pulp volume decreased 8% and average selling price increased 9%. Market pulp sales volumes declined year-over-year as first half 2003 wet weather in the southeastern U.S. constrained wood availability and resulted in pulp production losses and shifting production mix to include fluff pulp. Weather-related industry production shortfalls, combined with improving global demand, supported higher selling prices. The industry demand for our paper business remained weak as capacity exceeded demand and we experienced increased competition from lower priced imports. We anticipate that demonstrated fourth quarter 2003 improvement in the economy will continue through 2004 and will strengthen demand for products from this segment. To date, several pulp competitors and at least one uncoated free-sheet competitor have announced first quarter 2004 price increases.

The decision to close the tissue-manufacturing and converting operations at our Old Town, Maine mill caused certain pulp assets at this location to be impaired (see Note 5 of the Notes to Consolidated Financial Statements). Additionally, in the latter part of 2003, we began exploring strategic alternatives for our stand-alone pulp operations, including their possible sale. On January 29, 2004, we announced that we had signed a letter of intent for Koch Industries, Inc., to acquire our stand-alone pulp mills at Brunswick, Georgia, and New Augusta, Mississippi, for $610 million, including the assumption of $73 million of indebtedness. The sale, which is contingent on the completion of due diligence, execution of a definitive purchase agreement and customary approvals, is expected to be completed in the first quarter of 2004. Based on this letter of intent, we expect to

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recognize an after tax loss on the sale of approximately $130 million. In the fourth quarter of 2003, we recognized $106 million of this loss as goodwill impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). After the goodwill impairment, the remaining value of goodwill in the pulp operations was $169 million. We expect to record income tax expense on this transaction upon closing. At January 3, 2004, we did not consider this sale to be probable; therefore, we did not treat these operations as discontinued for financial reporting purposes (see Note 7 of the Notes to Consolidated Financial Statements).

Building Products Manufacturing

Our building products manufacturing segment reported net sales of $5.8 billion and operating profits of $379 million in 2003, compared with net sales of $5.1 billion and operating profits of $129 million in 2002. Included in the 2003 operating profits were pre-tax charges of $40 million, primarily for asset impairments and facility closure costs. The increase in operating profits is primarily due to increases in average selling prices for plywood and oriented strand board of 15% and 74%, respectively, when compared with the prior year. Prices increased due to a strong pick up in residential housing starts in the second half of 2003, combined with low inventories in the distribution channels. Additionally, sales volumes for plywood, treated lumber and gypsum increased 5%, 13% and 7%, respectively, due to strong demand for these products. These increases were offset by a 13% decline in sales volumes for oriented strand board, a portion of which is a result of the Woodland, Maine plant divestiture during the third quarter of 2002. During 2004, we anticipate strong demand for plywood and treated lumber along with the continued growth of Dens wallboard products. We also expect to see some improvement in the industrial wood product markets for industrial wood products**.**

Due to excess production capacity in the building products manufacturing industry, we closed or indefinitely curtailed production at certain facilities in our structural panels, industrial wood products and lumber businesses during 2003. In connection with these closures and curtailments, we recorded in the building products segment pre-tax charges of $22 million for asset impairments and losses on disposal of assets, and $4 million of employee termination costs. Following the impairment charge, the carrying value of the related assets was approximately $17 million. The fair value of the impaired assets was determined by independent appraisals or by discounted cash flow models.

On October 15, 2003, we announced that we would idle chemical production operations at our White City, Oregon facility. The determination to close the chemical operations was based on continued decline in demand for urea formaldehyde resins. In connection with this announcement, we determined that the value of related chemical producing assets at this location were impaired. Accordingly, in the third quarter of 2003, we recorded a pre-tax impairment charge to earnings in the building products segment of $12 million. Following the impairment charge, the carrying value of the related assets was approximately $5 million. In addition, we recorded a pre-tax charge of approximately $2 million for employee termination costs. Any further severance or business exit costs associated with the idled operations will be charged to earnings when the related liability is incurred. The fair value of the impaired assets was determined by an independent appraisal.

Building Products Distribution

Net sales and operating profits for the building products distribution segment were $4.3 billion and $98 million, respectively in 2003. During 2002, the segment reported net sales of $3.8 billion and operating profits of $50 million. The increase in operating profits was primarily a result of increased selling prices and profit margins for plywood and oriented strand board, combined with a 12% increase in lumber shipments due to strong market demand. Overall building product market conditions are expected to improve in 2004. Housing starts are projected to remain strong and a recovery in the industrial sector is anticipated.

Other

The operating loss for the Other nonreportable segment, which includes some miscellaneous businesses, unallocated corporate operating expenses, and the elimination of profit on intersegment sales, decreased to a loss of $282 million in 2003 from a loss of $703 million in 2002. Included in the 2003 loss was a net pre-tax credit of

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$102 million to increase the estimated amount that we expect to receive from asbestos liability insurance (net of a $54 million pre-tax charge to extend the projection of our asbestos liability through 2013), a charge of $36 million for costs to settle lawsuits, a charge of $10 million for pension settlement costs and $9 million of costs to monetize a portion of the asbestos insurance receivable. See Note 17 of the Notes to Consolidated Financial Statements. Included in the 2002 loss are $378 million of pre-tax charges primarily for asbestos and business separation costs. During 2003, we also incurred $43 million higher stock-based compensation expense related principally to the increase in the market value of our common stock, offset by reduced corporate administrative expenses, higher foreign currency transaction gains, higher insurance refunds, and lower legal and environmental expenses. The increase in stock-based compensation expense was not related to the adoption in 2003 of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) (see Note 1 of the Notes to Consolidated Financial Statements).

During 2003, we recorded pension expense of $238 million and made pension contributions of $119 million. Pension expense for 2004 is estimated to be $194 million; primarily as a result of the favorable investment returns on plan assets in 2003. Pension contributions for 2004 are estimated to be $206 million, reflecting quarterly contributions to certain plans as required by the IRS Code Section 412 and certain voluntary contributions.

Liquidity and Capital Resources

Excluding the effects of foreign currency exchange rates, we reduced debt during 2003 by $946 million, primarily from proceeds from higher cash provided by operations, receipt of income tax refunds and asset sales. With the completion of our 2003 refinancings, which were used to repay debt with near term maturities (see Note 9 of the Notes to Consolidated Financial Statements), we expect our cash flows from operations and financing activities to be sufficient to fund planned capital investments, pay dividends and make scheduled debt repayments in the near term. The following discussion provides further details of our liquidity and capital resources.

Operating Activities

During 2003, we generated cash from operations of $1,805 million compared to $1,009 million in 2002. The increase in cash provided by operations in 2003 was primarily a result of improved operating results in our building products businesses, income tax refunds received and the monetization of the asbestos insurance receivable during 2003.

During 2003, we experienced a working capital decrease of $444 million compared to a working capital increase of $496 million in 2002. The primary driver of the year-over-year change in working capital was the receipt of income tax refunds in 2003 that were accrued in 2002. Accounts receivable increased during 2003 by $42 million compared to an increase of $94 million in 2002. The year-over-year increase in accounts receivable related primarily to increased sales late in 2003 in the building products businesses, coupled with increased selling prices primarily for structural panels. Inventory increased during 2003 by $16 million compared with an increase in inventory of $2 million in 2002. The year-over-year increase in inventory related principally to higher log inventories in the building products businesses. Accounts payable and bank overdrafts increased during 2003 by $33 million compared to an increase in accounts payable of $49 million in 2002. The 2003 increase in accounts payable and bank overdrafts resulted principally from higher purchases of building products materials late in 2003. Other working capital increased by $128 million during the 2003 compared with a decrease in other working capital of $161 million in 2002. The year-over-year change in other working capital resulted primarily from higher accrued interest in 2003 related to timing of interest payments, and to the collection of asbestos insurance receivables.

Investing Activities

During 2003, capital expenditures for property, plant and equipment were $710 million compared with $693 million in 2002. Expenditures in 2003 included $364 million in the North America consumer products segment,

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$65 million in the international consumer products segment, $100 million in the packaging segment, $73 million in the bleached pulp and paper segment, $57 million in the building products manufacturing segment, $5 million in the building products distribution segment and $46 million of other and general corporate. The 2003 capital expenditures included $163 million to complete a through-air-dried (TAD) machine at Wauna, Oregon. This machine is part of a $500 million project to improve the quality of our paper towels. The project also included a TAD machine in Port Hudson, Louisiana, completed in 2002, as well as tissue converting equipment and warehouse facilities. During 2003, we also invested $45 million for pollution control and abatement.

In 2004, we expect to make capital expenditures for property, plant and equipment of approximately $750 million. Our 2004 capital expenditure budget currently includes approximately $36 million for environment-related projects. Certain other capital projects being undertaken primarily for improving financial returns or safety will also include expenditures for pollution control. A reduction in expenditures for capacity growth from 2003 levels will be offset by increased expenditures to reduce energy and other production costs, as well as an increase in the amount of expenditures required to maintain the good condition of our facilities. Planned capital expenditures for 2004 include $50 million towards the completion of an oriented strand board plant in Hosford, Florida.

On April 15, 1998, the United States Environmental Protection Agency promulgated a set of regulations known as the Cluster Rule that established new requirements for air emissions and wastewater discharges from pulp and paper mills. The Cluster Rule requires pulp and paper mills to become elemental chlorine free in the pulp bleaching process. Air regulations under the Cluster Rule are called MACT or Maximum Achievable Control Technology regulations, with MACT I regulations representing rules regarding pulping and bleaching and MACT II regulations representing rules regarding combustion sources. We estimate that we will make capital expenditures of up to approximately $542 million through April 2007 in order to comply with the Cluster Rule s requirements. Of that total, approximately $405 million was spent through 2003 and an additional $39 million is expected to be spent in 2004, which is included in the pollution and abatement amount listed above. The work performed in 2003 was primarily for MACT II requirements, early planning and engineering, and installation of several systems for the second part of MACT I of the Cluster Rule. Remaining expenditures are for requirements under MACT II regulations (to be completed by March 2004) and the second part MACT I regulations (to be completed by April 2007).

Effective November 2, 2002, we sold a 60% controlling interest in the Unisource paper distribution business to an affiliate of Bain Capital Partners, LLC, and retained the remaining 40% equity interest in Unisource. In connection with this disposition, we recorded a pre-tax loss of $298 million ($30 million after taxes) in the fourth quarter of 2002 in the paper distribution segment. As part of these transactions, we:

- received $471 million in cash during fiscal 2002 in connection with the disposition, which was used to repay debt;
- received $169 million in cash as a result of a financing lease arrangement accounted for by us as a capital lease;
- received two payment-in-kind notes from Unisource for $70 million and $100 million, which accrue interest at an annual interest rate of 7% and 8%, respectively, and mature in November 2012; and
- entered into a sublease with Unisource for certain warehouses retained by us.

In addition, in the second quarter of 2003, we received more than $193 million of cash refund from the related income tax benefit of the Unisource sale, which is included in the income tax refund discussed above.

As part of the Unisource transaction, we entered into a loan agreement with Unisource pursuant to which we agreed to provide, subject to certain conditions, a $100 million subordinated secured loan to Unisource. This subordinated loan, if drawn, would mature in May 2008 and bears interest at a fluctuating rate based on LIBOR. In addition, we have also agreed to provide certain employee benefits and other administrative services to Unisource pursuant to an agreement with a two-year term. We also agreed to provide certain insurance coverage

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(including related letters of credit) to Unisource, generally for a period of five years, including workers compensation, general liability, automobile liability and property insurance. For further discussion of this transaction, see Note 4 of the Notes to Consolidated Financial Statements.

Financing Activities

Excluding the effects of foreign currency exchange rates, we reduced debt during 2003 by $946 million to $10,648 million at January 3, 2004 from $11,516 million at December 28, 2002. The net effect of changes in foreign currency exchange rates caused our debt to increase by $78 million during 2003. For the fiscal year ended January 3, 2004, the weighted average interest rate on our total debt, including outstanding interest rate exchange agreements, was 6.9%. The following table details the activity in our short and long-term debt balances in 2003:

(in millions)	Short-term	Long-term*	Total
Beginning balances:	$ 710	$ 10,806	$ 11,516
Maturities:			
Accounts receivable secured borrowings	(248)		(248)
Industrial revenue bonds		(12)	(12)
Money markets	(50)		(50)
Notes		(566)	(566)
Repayments**		(7,512)	(7,512)
Borrowings**	277	7,165	7,442
Other:			
Effect of foreign currency exchange rates		78	78
Ending balance	$ 689	$ 9,959	$ 10,648

* Includes current portion of long-term debt.

** Includes repayments and re-borrowings of our Multi-Year Revolving Credit Facility of $7,433 million and $4,586 million, respectively.

As of January 3, 2004, we had $689 million outstanding, with a commitment of $211 million under our accounts receivable secured borrowing program, which was renewed in December 2003. G-P Receivables, Inc. (G-P Receivables) is our wholly owned subsidiary and is the special purpose entity into which some of our receivables and the receivables of participating domestic subsidiaries are sold. G-P Receivables, in turn, sells an interest in the receivables to the various banks and entities. This program is accounted for as a secured borrowing. The receivables outstanding under these programs and the corresponding debt are included as both Receivables and Secured borrowings and other short-term notes, respectively, in the accompanying balance sheets. Accordingly, there were no amounts off balance sheet during the three years ended January 3, 2004. As collections reduce previously pledged interests, new receivables may be pledged. G-P Receivables is a separate corporate entity and its assets will be available first and foremost to satisfy the claims of its creditors. The cost of the accounts receivable program for 2003 was $23 million, which is included in interest expense on the consolidated statement of operations.

In December 2003, we sold, without recourse, approximately $156 million of asbestos insurance receivables representing claims already paid by us to a third party for approximately $147 million in cash. The net proceeds were used to repay debt.

On December 11, 2003, we completed a private placement of $500 million of 8% senior notes, due in 2024. Net proceeds from the private placement were used to pay down a portion of our Multi-Year Revolving Credit Facility. We paid approximately $6 million in fees and expenses associated with this transaction. The fees are being amortized over the term of the senior notes. In connection with the private placement, we agreed to offer to exchange these note, within specified time periods, for notes with substantially identical terms that are registered under the Securities Act.

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On June 3, 2003, we completed a private placement of $500 million senior notes, consisting of $350 million of 7.375% notes due in 2008 and $150 million of 8% notes due in 2014, all of which were guaranteed by Fort James and Fort James Operating Company, a subsidiary of Fort James Corporation. The 8% senior notes due 2014 will be callable at our option beginning in 2009. Net proceeds from the offering were used to pay down a portion of our Multi-Year Revolving Credit Facility. On October 3, 2003, we completed an offer to exchange these notes for notes with substantially identical terms that are registered under the Securities Act. We paid approximately $8 million in fees and expenses associated with these transactions. The fees are being amortized over the term of these senior notes.

On January 30, 2003, we completed a private placement of $1.5 billion of senior notes, consisting of $800 million of 9.375% notes due in 2013 and $700 million of 8.875% notes due in 2010, all of which were guaranteed by Fort James and Fort James Operating Company. The 9.375% notes due in 2013 are callable at our option beginning in 2008. Net proceeds from the offering were used to completely repay the Senior Capital Markets Bridge Facility, and to pay down approximately $1 billion outstanding under our Multi-Year Revolving Credit Facility. On September 9, 2003, we completed an offer to exchange these notes for notes with substantially identical terms that are registered under the Securities Act. We paid approximately $34 million in fees and expenses associated with these transactions. The fees are being amortized over the term of the senior notes.

The indentures associated with the $500 million and $1.5 billion senior notes offerings completed on June 3, 2003 and January 30, 2003, respectively, allow Georgia-Pacific and any restricted subsidiary (as defined in the indentures) of Georgia-Pacific to incur any debt so long as we meet a fixed charges coverage ratio of 2.00 to 1.00 (as defined in the indentures). In addition, we can incur significant amounts of other items of permitted debt (as defined in the indentures) without being in compliance with the fixed charge coverage ratio. The senior notes indentures allow us to make restricted payments, including making restricted investments, if certain conditions are met. We can, however, make permitted payments and permitted investments without complying with such conditions. These offerings also contain various non-financial covenants. We were in compliance with these debt covenants as of January 3, 2004.

In connection with the sale of a 60% controlling interest in Unisource in 2002, we terminated our United States and Canadian accounts receivable secured borrowing programs for Unisource. Termination of these programs in 2002 required the repayment of the domestic accounts receivable program in the amount of $400 million and the repayment of the Canadian accounts receivable program in the amount of US $60 million. We also entered into a $175 million sale-leaseback transaction that was accounted for as a capital lease obligation. We paid approximately $4 million in fees associated with the transaction, which matures in 2018. The fees are being amortized over the term of the sale-leaseback transaction. We also paid $9 million to terminate an existing capital lease obligation held by Unisource.

On January 28, 2004, we announced that we have elected to redeem $243 million aggregate principal amount outstanding of our 9.875% debentures due November 1, 2021. We anticipate that the debentures will be redeemed on or about March 1, 2004. We will utilize amounts available under our Multi-Year Revolving Credit Facility to redeem these debentures. In the first quarter of 2004, we expect to recognize a pre-tax charge of approximately $11 million for call premiums and to write off deferred debt issuance costs. We initially issued these debentures in 1991.

For further information regarding our debt, please see Note 9 of the Notes to Consolidated Financial Statements.

At January 3, 2004, we had $250 million of term loans outstanding under our Multi-Year Revolving Credit Facility at a weighted-average interest rate of 3.3% with a maturity date of November 28, 2005. In addition, $621 million of borrowing capacity under the facility was committed to support outstanding letters of credit and similar instruments. We elected to reduce amounts committed under this facility during 2003 to $2,250 million in revolving loans and $250 million in term loans. Borrowings under this facility bear interest at market rates. These

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interest rates may be adjusted according to a rate grid based on our debt ratings. Fees and margins may also be adjusted according to a pricing grid based on our debt ratings. Fees include a facility fee of 0.5% per annum on the aggregate commitments of the lenders as well as up-front fees. As of January 3, 2004, we paid $13 million in commitment fees and $4 million in amendment fees. Amounts outstanding under this facility are included in Long-term debt, excluding current portion on the accompanying consolidated balance sheets.

Amounts outstanding under this facility include the following:

In millions	January 3, 2004
Commitments:	
Revolving loans	$ 2,250
Term loans	250
Credit facilities available	2,500
Amounts Outstanding:	
Letter of credit agreements*	(621)
Revolving loans due November 2005	
Term loans due November 2005, average rate of 3.3%	(250)
Total credit balance	(871)
Total credit available	$ 1,629

* The letter of credit agreements include only standby letters of credit from Bank of America.

Covenants in the Multi-Year Revolving Credit Facility require a maximum leverage ratio (as defined) of 67.50% on January 3, 2004 and 65.00% on April 3, 2004 and thereafter. These covenants also require a minimum interest coverage ratio (as defined), of 2.25 to 1.00 on January 3, 2004; 2.50 to 1.00 on April 3, 2004; 2.75 to 1.00 on July 3, 2004; and 3.00 to 1.00 on October 2, 2004 and thereafter. In addition, the covenants require a minimum net worth (as defined) that changes quarterly, and a maximum debt level of $12,538 million, which changes quarterly, should our leverage ratio exceed 65.00%. We were in compliance with these debt covenants as of January 3, 2004, with a leverage ratio of 61.27%, an interest coverage ratio of 2.75 to 1.00, a debt level (as defined) of $10,480 million and an adjusted net worth surplus (as defined) as shown below:

In millions	January 3, 2004
Adjusted Net Worth:	
Net worth	$ 5,394
Goodwill impairments (see Note 7 of the Notes to Consolidated Financial Statements)	757
Minimum pension liability adjustment (see Notes 14 and 16 of the Notes to Consolidated Financial Statements	473

Adjusted Net Worth	6,624
Required Net Worth:	
80% of net worth as of the Credit Agreement closing date	4,650
50% of net Income from fourth quarter 2000 through 2003*	208
Proceeds of capital stock or equity interest from fourth quarter 2000 through 2003	1,118
The Timber Company Net Worth	(329)
Required Net Worth	5,647
Adjusted Net Worth surplus	$ 977

* Does not include quarters with net losses.

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Our borrowing agreements contain a number of financial and non-financial covenants which restrict our activities. The more significant financial covenants are discussed above. In addition, certain agreements contain cross-default provisions.

Our continued compliance with these restrictive covenants is dependent a number of factors, many of which are outside of our control. Should events occur that result in noncompliance, we believe there are remedies available that are acceptable to our lenders and us.

The following table presents principal (or notional) amounts and related weighted average interest rates by year of expected maturity for our debt obligations and interest rate exchange agreements as of January 3, 2004. For obligations with variable interest rates, the tables set forth payout amounts based on weighted average rates for the year ended January 3, 2004, and do not attempt to project future interest rates.

As of January 3, 2004

(In millions, except percentages)	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value January 3, 2004
Secured borrowings and short-term notes	$ 689						$ 689	$ 689
Average interest rates	2.1%						2.1%	2.1%
Credit facilities		$ 250					$ 250	$ 250
Average interest rates		3.3%					3.3%	3.3%
Notes and debentures	$ 345		$ 600	$ 300	$ 350	$ 6,551*	$ 8,146	$ 8,639
Average interest rates	6.5%		7.5%	6.9%	7.4%	8.6%	8.3%	7.1%
Euro-denominated bonds	$ 378						$ 378	$ 375
Average interest rates	4.8%						4.8%	6.3%
Revenue bonds	$ 31	$ 22	$	$ 29	$ 21	$ 748	$ 851	$ 822
Average interest rates	2.1%	5.6%	6.0%	4.9%	5.0%	5.2%	5.0%	5.3%
Capital leases	$ 11	$ 12	$ 14	$ 17	$ 19	$ 202	$ 275	$ 314
Average interest rates	7.6%	8.0%	7.9%	8.4%	8.4%	7.5%	7.7%	6.4%
European debt	$ 13	$ 12	$ 11	$ 7	$ 6	$ 55	$ 104	$ 104
Average interest rates	4.5%	4.6%	4.7%	4.0%	3.9%	3.0%	3.6%	2.8%
Other loans	$ 11						$ 11	$ 12
Average interest rates	2.9%						2.9%	3.0%
Debt subtotal	$ 1,478	$ 296	$ 625	$ 353	$ 396	$ 7,556	$ 10,704	
Less: unamortized debt discount							(56)	
Total debt balance							$ 10,648	
Notional amount of interest rate exchange Agreements			$ 47				$ 47	$ 3

(rate collar)			
Average interest rate cap	7.5%	7.5%	7.5%
Average interest rate floor	5.5%	5.5%	5.5%

* Amount includes the $243 million debenture to be redeemed.

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Approximately $148 million of our revenue bonds are supported by letters of credit that expire within one year. We have the intent to renew the letters of credit supporting these revenue bonds. Therefore, maturities of these obligations are reflected in accordance with their stated terms.

Our debt portfolio is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the market value of our debt portfolio due to differences in market interest rates and the rates in effect based on the debt agreements. Based on our indebtedness and interest rates in effect as of January 3, 2004, a 100 basis point interest rate increase is estimated to impact the fair value of the debt portfolio by $654 million and annual interest expense by $12 million.

The following table presents commitment amounts by year of expected expiration for our standby letter of credit agreements, operating leases, purchase obligations, and other long-term liabilities.

As of January 3, 2004

(In millions)	2004	2005	2006	2007	2008	Thereafter	Total
Standby letters of credit*	$	$	$	$	$	$ 19	$ 19
Operating leases	$ 78	$ 74	$ 64	$ 53	$ 45	$ 348	$ 662
Purchase obligations**	$ 325	$ 144	$ 116	$ 105	$ 108	$ 269	$ 1,067
Other long-term liabilities***	$ 313	$ 362	$ 352	$ 153	$ 78	$ 604	$ 1,862

* Standby letters of credit not included above under the credit facilities.

** The majority of our purchase obligations are take-or-pay contracts made in the ordinary course of business related to raw material purchases and utilities contracts. Other significant items included in the above table reflect purchase obligations related to advertising agreements and legally binding commitments for capital projects. Purchase orders made in the ordinary course of business are excluded from the above table. Any amounts for which we are liable under purchase orders are reflected in our consolidated balance sheet as accounts payable and accrued liabilities.

*** Represents other long-term liability amounts reflected in our consolidated balance sheets that have known payment streams. Payments include: worker s compensation reported case reserves; environmental cases where we have received a decree with scheduled payments from the regulating agency; legal liabilities that have been settled or where a judgment has been issued; premium payments associated with self-insurance and postretirement benefits; and pension contributions and asset retirement obligations. Amounts do not include notes payable from monetizations of notes receivable.

We intend to renew the standby letters of credit where appropriate as they mature, therefore, the obligations do not have a definitive maturity date.

The following table details activity in our debt ratings:

	Current Rating	Prior Rating	Date of Change
Rating Agency			
Moody s Investors Service:			
Liquidity rating	SGL 3	N/A	September 30, 2003
Senior implied and guaranteed debt	Ba2	Ba1	January 21, 2003
Georgia-Pacific senior unsecured notes	Ba3	Ba1	January 21, 2003

Georgia-Pacific debt guaranteed by Fort James	Ba2	N/A	January 21, 2003
Fitch Ratings:			
Senior unsecured long term debt	BB	BB+	January 29, 2003
Standard & Poor s:			
Long-term debt	BB+	BBB-	September 27, 2002

At January 3, 2004, we had interest rate exchange agreements (a collar) that effectively capped $47 million of floating rate obligations to a maximum interest rate of 7.5% and established a minimum interest rate on these obligations of 5.5%. Our interest expense is unaffected by this agreement when the market interest rate falls

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within this range. During 2003, these agreements decreased interest expense by approximately $2 million. The agreements had a weighted-average maturity of approximately two years at January 3, 2004.

Interest rate exchange agreements with a notional amount of $300 million matured on August 22, 2003 and were not renewed. At December 28, 2002, we had interest rate exchange agreements that effectively converted $300 million of floating rate obligations with a weighted average interest rate of 1.8% to fixed rate obligations with an average effective interest rate of approximately 5.9%. Interest rate exchange agreements with a notional amount of $1.7 billion matured during 2002 and were not renewed. During 2003 and 2002, interest rate exchange agreements increased interest expense by $9 million and $41 million, respectively.

At January 3, 2004 we had $1,096 million of floating rate debt outstanding, which represented approximately 10% of our total debt balance.

Our international operations create exposure to foreign currency exchange rate risks. At January 3, 2004 and December 28, 2002, we had outstanding approximately $370 million (net of discount) and $294 million (net of discount), respectively, of Euro-denominated bonds, which were designated as a hedge against our net investment in Europe. The use of this financial instrument allows us to reduce our overall exposure to exchange rate movements, since the gains and losses on this instrument substantially offsets losses and gains on the assets, liabilities and transactions being hedged.

We do not utilize derivatives for speculative purposes. Derivatives are transaction specific so that a specific debt instrument, contract or invoice determines the amount, maturity and other specifics of the hedge. Counterparty risk is limited to institutions with long-term debt ratings of A or better.

As of January 3, 2004, we had $1.5 billion of debt and equity securities available for issuance under a shelf registration statement filed with the Securities and Exchange Commission in 2000.

During 2003 and 2002, we paid dividends totaling $126 million and $118 million, respectively. We expect to continue to make quarterly dividend payments of $0.125 per share.

Off-Balance Sheet and Other Financing Arrangements

We currently do not have any non-consolidated special purpose arrangements.

As we discussed previously we have an accounts receivable secured borrowing program. G-P Receivables is our wholly owned subsidiary and is the special purpose entity into which the receivables of participating domestic subsidiaries are sold. G-P Receivables, in turn, sells an interest in the receivables to the various banks and entities. This program is accounted for as a secured borrowing. The receivables outstanding under these programs and the corresponding debt are included as both Receivables and Secured borrowings and other short-term notes, respectively, in the accompanying balance sheets. Accordingly, there were no amounts off balance sheet during the three years ended January 3, 2004. As collections reduce previously pledged interests, new receivables may be pledged.

Prior to 1996, we sold certain assets for $354 million and agreed to lease the assets back from the purchaser over a period of 30 years. Under the agreement with the purchaser, we agreed to maintain a deposit (initially in the amount of $322 million) that, together with interest earned thereon, was expected to be sufficient to fund our lease obligation, including the repurchase of assets at the end of the term. This transaction was accounted for as a financing arrangement. At the inception of the agreement, we recorded an asset for the deposit from the sale of $305 million and a liability for the lease obligation of $346 million on our balance sheet. The sale of these assets to Domtar in 2001 (see Note 4 of the Notes to Consolidated Financial Statements) required us to repurchase these assets from the lessor. Accordingly, we agreed with the lessor to a deferred payment arrangement essentially under the same terms as the original lease obligation. We agreed to maintain the original deposit under our

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existing terms and create a second deposit. The sum of these deposits (approximately $400 million at December 29, 2001) approximates the deferred payment amount. A legal right of set off exists between the deferred payment amount owed and the deposits and, accordingly, we have recorded these transactions net in the accompanying consolidated balance sheets as Other long-term liabilities.

In conjunction with the pre-2000 sales of timberlands formerly located in California and Maine, we received notes from the purchasers totaling $718 million. The notes received from the California sales were monetized through the issuance of notes payable and commercial paper secured by the notes, and the notes received from the Maine sale (the Maine Notes) were monetized through the issuance of notes payable in a private placement with the proceeds from such monetizations being used to repay debt. Proceeds from the notes received from the purchasers are being used to fund payments required for the notes payable. The notes receivable are classified as Other assets and the notes payable are classified as Other long-term liabilities on the accompanying consolidated balance sheets. The Maine Notes were issued by G-P Maine, Inc., an indirect, wholly owned subsidiary of ours. It is a separate corporate entity from us, and its assets will be available first and foremost to satisfy the claims of its creditors.

Other

We employ approximately 61,000 people, approximately 25,000 of whom are members of unions. We consider our relationship with our employees to be good. Fifty-three union contracts are subject to negotiation and renewal in 2004, including nine at large facilities.

We are a party to various legal proceedings incidental to our business and are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. As is the case with other companies in similar industries, we face exposure from actual or potential claims and legal proceedings involving environmental matters. Liability insurance in effect during the last several years provides only very limited coverage for environmental matters.

Environmental Liabilities

Fox River Site

The Fox River site in Wisconsin is comprised of 39 miles of the Fox River and Green Bay. The site was nominated by the United States EPA (but never finally designated) as a Superfund Site due to contamination of the river by PCBs through wastewater discharged from the recycling of carbonless copy paper from 1953-1971. We became a PRP through our acquisition of Fort James in 2000.

In late July of 2003, WDNR issued a Record of Decision (ROD) setting forth a cleanup plan for the lower portions of the Fox River, including the area into which the Fort James mill discharged wastewater. The ROD estimates the total cost of the cleanup at approximately $324 million. We have analyzed the ROD to understand its critical assumptions, including among others the volume of sediment to be dredged, the assumed cost of such dredging, the methods of disposing of the dredged wastes, and the use of remedies other than dredging, and have concluded that our share of the costs to clean up the portion of the Fox River for which we are responsible is substantially less than originally estimated. Accordingly, in the fourth quarter of 2003, we reduced the related environmental reserve and recorded a pre-tax credit of $66 million.

For further discussion regarding commitments and contingencies, including our legal and environmental liabilities, see Note 17 of the Notes to Consolidated Financial Statements.

Critical Accounting Policies

A summary of our significant accounting policies is included in Note 1 to Notes to Consolidated Financial Statements. Management believes that the consistent application of these policies enables us to provide readers of

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the financial statements with useful and reliable information about our operating results and financial condition. The following are accounting policies that management believes are most important to the portrayal of our financial condition and results and require management s most difficult, subjective, or complex judgments.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Judgments and assessments of uncertainties are required in applying our accounting policies in many areas. For example, key assumptions are particularly important when determining amounts allocated to identifiable intangible assets in a business combination and in developing our projected liabilities for pension and other postretirement benefits. We base the discount rate used to determine the projected benefit obligation for our United States and Canadian pension plans on the Moody s Investor Service Aa bond yield as of October 31 of each year. For our European pension plans, we base the discount rate on comparable indices within each country. If the discount rate used to determine the 2003 projected benefit obligation for these plans were decreased by 100 basis points, our projected benefit obligation would have increased by approximately $494 million at January 3, 2004, and the 2004 pension expense would increase by $32 million. If the discount rate were increased by 100 basis points, our projected benefit obligation would have decreased by approximately $402 million at January 3, 2004, and the 2004 pension expense would decrease by $25 million.

Environmental and Legal Matters

Other areas in which significant uncertainties exist include, but are not limited to, projected costs to be incurred in connection with environmental and legal matters, including our asbestos liabilities. The more important assumptions in assessing our asbestos liability are the projection of the number of claims that will be filed against us in the future, which are influenced by the population potentially exposed to asbestos-containing products manufactured by us, the expected occurrence of various diseases in these potentially exposed populations, the rate at which these potentially exposed populations actually file claims, and activities of the asbestos plaintiffs bar designed to maximize its profits from such claims. The cost of settling claims is driven by these same assumptions, as well as by prevailing judicial and social environments in the jurisdictions in which claims are filed, the rulings by judges and the attitudes of juries in those jurisdictions, the demands of the asbestos plaintiffs bar with respect to the value of each such claim, the insolvencies of other defendants to a particular claim, and the impact of verdicts against other defendants on settlement demands against us. The unique nature of our asbestos claims and the calculation of the liability does not lend itself to a sensitivity analysis.

We recognize a liability for environmental remediation and legal indemnification and defense costs when we believe it is probable a liability has been incurred and the amount can be reasonably estimated. The liabilities are developed based on currently available information and reflect the participation of other potentially responsible parties, depending on the parties financial condition and probable contribution. The accruals are recorded at undiscounted amounts and are reflected as liabilities on the accompanying consolidated balance sheets. We also have insurance that covers a substantial part of our asbestos liabilities and defense costs and losses on certain environmental claims. We record receivables to the extent that the realization of the insurance is deemed probable. Such receivables are recorded at an undiscounted amount and are reflected as an asset in the accompanying consolidated balance sheets.

Goodwill and Long-Lived Assets

In addition, management uses judgment in assessing goodwill and other long-lived assets for impairment. In accordance with the transition provisions of SFAS No. 142, we have assessed the recoverability of our goodwill.

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We review the recorded value of our goodwill annually at the beginning of the third fiscal quarter of each year, or sooner if events or changes in circumstances indicate that the carrying amount may exceed fair value. Recoverability is determined by comparing the estimated fair value of the reporting unit to which the goodwill applies to the carrying value, including goodwill, of that reporting unit. We utilize the present value of expected net cash flows to determine the estimated fair value of our reporting units. This present value model requires management to estimate future net cash flows, the timing of these cash flows, and a discount rate (or weighted average cost of capital) representing the time value of money and the inherent risk and uncertainty of the future cash flows. The discount rate, adjusted for inflation, is based on independently calculated beta risks for a composite group of consumer products companies and forest products peer companies, our target capital mix, and an estimated market risk premium. The assumptions used in estimating future cash flows were consistent with the reporting unit s internal planning. If the estimated fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of the reporting unit exceeds its estimated fair value, the implied fair value of the reporting unit goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Goodwill totaled $7.7 billion at January 3, 2004 and represented 31% of our total assets. In 2003, we recognized a pre-tax charge of $106 million for the impairment of goodwill in the bleached pulp and paper segment. If the discount rate used to estimate the fair value of each reporting unit were increased by 100 basis points, the fair value would continue to exceed the carrying value for all of our reporting units.

We assess our long-lived assets other than goodwill for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, we project undiscounted net future cash flows over the remaining life of the assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets.

Accounting Changes

During 2003, we adopted SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* (SFAS No. 145). SFAS No. 145 rescinds FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt (An Amendment of APB Opinion No. 30),* which required all gains and losses from extinguishment of debt to be classified as extraordinary items. We have determined that previously reported extraordinary losses in 2001 do not meet the criteria in Opinion 30 for classifications as an extraordinary item. Accordingly, we reclassified $19 million related to the write off of deferred debt issuance costs to Other (income) losses, net and $7 million of related taxes to Provision (benefit) for income taxes in the consolidated statement of operations.

Effective December 29, 2002, we adopted SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143). SFAS No. 143 requires that entities record the fair value of an asset retirement obligation in the period in which it was incurred. The cumulative effect of adopting SFAS No. 143 was an after-tax credit of $28 million effective at the beginning of 2003.

Effective December 29, 2002, we also adopted SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS No. 148), an amendment of SFAS No. 123. SFAS No. 148 provides alternative methods of transition to SFAS No. 123 s fair value method of accounting for stock-based compensation and amends the disclosure provisions of SFAS No. 123. We utilized the prospective method in accordance with SFAS No. 148 and applied the expense recognition provisions of SFAS No. 123 to stock options awarded or modified in 2003 and thereafter. The impact on compensation expense recognized in 2003 relating to the 2003 stock option awards was a reduction to expense of approximately $2 million.

Effective December 30, 2001, we adopted SFAS No. 142. SFAS No. 142 requires that entities discontinue amortization of all purchased goodwill, including amortization of goodwill recorded in past business

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combinations. The adoption of SFAS No. 142 required us to perform an initial impairment assessment on all goodwill as of the beginning of 2002 for each of our reporting units. In this assessment, we compared the fair value of the reporting unit to its carrying value. The fair values of the reporting units were calculated based on the present value of future cash flows. The assumptions used in these discounted cash flow analyses were consistent with the reporting unit s internal planning. The cumulative effect of the adoption of this accounting principle was an after-tax charge to earnings of $545 million effective at the beginning of 2002 (see Note 7 of the Notes to Consolidated Financial Statements) related to the impairment of goodwill in the paper distribution segment. The principal facts and circumstances leading to this impairment included a diminution of the synergies we originally expected to receive in our bleached pulp and paper segment after the sale of our stand-alone paper mills sold to Domtar, Inc. in 2001, and changes in the marketplace for coated and uncoated free sheet paper subsequent to the acquisition of Unisource.

In January 2003, the Financial Accounting Standards Board (the FASB) released Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). Fin 46 requires that all primary beneficiaries of Variable Interest Entities (VIE) consolidate that entity. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs to which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 (FIN 46R) to clarify some of the provisions of the interpretation and defer to the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to at special purpose entities are required to apply the provisions of the interpretation in financials statements for periods ending after March 14, 2004. We do not have interests in special purpose entities and will apply the provisions of FIN 46R with our first quarter 2004 financial statements.

The only non-consolidated entity that we have identified as a potential VIE is the GA-MET joint venture partnership. We have a 50% interest in this partnership that owns and operates our main office building in Atlanta, Georgia. We currently account for our investment in this partnership under the equity method. We are in the process of performing tests to determine if the GA-MET joint venture is a VIE and will finalize our analysis in the first quarter of 2004. At January 3, 2004, the GA-MET partnership had assets of $91 million and debt of $127 million.

In the first quarter of 2001, we adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and, accordingly, recorded an after-tax cumulative effect of accounting change credit of $11 million.

For a discussion of commitments and contingencies, including our legal and environmental liabilities, see Note 17 of the Notes to Consolidated Financial Statements.

2002 Compared with 2001

During 2002, we reported consolidated net sales of $23.3 billion and a net loss of $735 million, compared with net sales of $25.0 billion and a net loss of $407 million in 2001.

Interest expense was $841 million in 2002, compared with $1,080 million in 2001. The decrease is the result of lower debt levels and slightly lower interest rates.

For the year ended December 28, 2002, we reported a loss from continuing operations before income taxes of $508 million and an income tax benefit of $318 million, compared with a loss from continuing operations before income taxes of $314 million and an income tax provision of $174 million for the year ended December 29, 2001. The effective rate in 2002 was different from the statutory rate primarily because of the write-off of nondeductible goodwill (see Note 7 of the Notes to Consolidated Financial Statements) and because of tax benefits from the sale of a controlling 60% interest in the Unisource paper distribution business (see Note 4 of the Notes to Consolidated Financial Statements). The effective tax rate in 2001 was different from the statutory rate primarily because of nondeductible goodwill amortization expense associated with business acquisitions and because of nondeductible goodwill applicable to assets sold (see Note 4 of the Notes to Consolidated Financial Statements).

During 2002 and 2001, we recorded a pre-tax charge to earnings of $315 million ($198 million after tax) and $350 million ($221 million after tax), respectively, to cover projected asbestos liabilities and defense costs through 2012 and 2011, respectively, net of insurance recoveries (see Note 17 of the Notes to Consolidated Financial Statements).

In November 2002, we completed the sale of a controlling 60% interest in our Unisource paper distribution business and recorded a pre-tax loss of $298 million ($30 million after tax). Unisource was reported as the paper distribution segment for the first ten months of 2002 and for all of 2001. Beginning in November of 2002 results from our 40% interest in Unisource are included in the bleached pulp and paper segment.

Effective December 30, 2001, we adopted SFAS No. 142 and recorded an after-tax charge of $545 million for the cumulative effect of adopting this accounting principle. Accordingly, we no longer amortized goodwill beginning in 2002. During 2001, goodwill amortization expense aggregated $235 million, which included $156 million in the North America consumer products segment, $13 million in the international consumer products segment, $21 million in the packaging segment, $23 million in the bleached pulp and paper segment, $19 million in the paper distribution segment, and $3 million in the building products manufacturing segment.

North America Consumer Products

The North America consumer products segment reported net sales of $5.5 billion and operating profits of $851 million for the year ended December 28, 2002, compared with net sales of $5.4 billion and operating profits of $663 million for the year ended December 29, 2001. Included in the 2002 operating results are charges of $18 million primarily related to severance and facility closure costs. The 2001 operating results included a charge of $83 million for the closure of the Bellingham, Washington pulp mill and goodwill amortization of $156 million. Excluding these severance and facility closure charges and goodwill amortization, return on net sales decreased slightly to 16% compared with 17% in 2001. The decrease in 2002 operating results was due principally to a 2% decline in retail tissue prices. Commercial tissue pricing was down 5% year over year due to competitive market conditions, which began late in 2001. Pricing improved slightly in the second half of 2002. Costs for wastepaper, a key raw material in the tissue business, followed an increasing trend during 2002 and were 13% higher on average for the year than in 2001. In the fourth quarter of 2002, wastepaper costs were 43% higher that the comparable period in 2001.

International Consumer Products

The international consumer products segment reported net sales of $1.7 billion and operating profits of $141 million for the fiscal year ended December 28, 2002, compared with net sales and operating profits of $1.6 billion and $126 million, respectively, during 2001. During 2002, the United States dollar weakened against the functional currencies of the businesses in the international consumer products segment. The impact of the change in foreign currency exchange rates was to increase net sales and operating profits in 2002 by $81 million and $9 million, respectively. Excluding goodwill amortization of $13 million in 2001 and the effect of the change in currency exchange rates, return on net sales remained flat at 9% in 2002 and 2001.

Packaging

The packaging segment reported net sales of $2.7 billion and operating profits of $323 million for the year ended December 28, 2002, compared with net sales of $2.6 billion and operating profits of $388 million in 2001. Excluding goodwill amortization of $21 million, operating profits were $405 million in 2001. Return on net sales

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decreased to 12% from 15% in 2001. Average selling prices decreased in 2002 for all packaging products. Average selling prices for linerboard and medium decreased 7% and 11%, respectively, and average selling prices for packaging boxes decreased 5%. These decreases were offset by a 5% increase in sales volume for both linerboard and packaging boxes.

Bleached Pulp and Paper

The bleached pulp and paper segment reported net sales of $2.5 billion and operating profits of $58 million for the year ended December 28, 2002. In 2001, the segment reported net sales of $3.2 billion and operating profits of $25 million. In August 2001, the bleached pulp and paper segment sold four paper and pulp facilities and recorded a pre-tax loss of $63 million. During 2001 these facilities reported net sales and an operating loss of $770 million and $64 million, respectively. Excluding goodwill amortization of $23 million in 2001 and the results of operations sold in 2001, return on net sales decreased to 1% compared with 5% for the same period a year ago. The decrease in net sales and operating profits was due primarily to a decrease in average prices for all of the bleached pulp and paper products, offset somewhat by lower production costs. Average selling prices for market pulp and fluff pulp decreased 5% and 10%, respectively, while paper prices decreased 8% compared with 2001 prices. Average selling prices for our pulp and paper products decreased during 2002 but ended the year at levels higher than 2001.

Paper Distribution

The paper distribution segment, which represents the operating results of Unisource for the first ten months of 2002 and all of 2001, reported net sales of $4.8 billion and an operating loss of $516 million in 2002, compared to net sales and operating profits of $6.2 billion and $48 million, respectively, in 2001. In November 2002, we sold a 60% controlling interest in the Unisource paper distribution business and recorded a pre-tax loss on the sale of $298 million. Also included in the 2002 operating results were goodwill and other long-lived assets impairment charges of $208 million. Included in the segment s 2001 operating results was goodwill amortization of $19 million. Excluding these unusual charges in 2002 and goodwill amortization expense in 2001, operating results decreased to a loss of $10 million in 2002 compared to an operating profit of $67 million in 2001. The decline in sales and operating profits for the paper distribution segment is a direct result of declining prices and volumes in the printing business. Beginning in November 2002, we began reporting in the bleached pulp and paper segment our share of Unisource s operating results as equity in earnings of an unconsolidated subsidiary.

Building Products Manufacturing

The building products manufacturing segment reported net sales of $5.1 billion and operating profits of $129 million for the year ended December 28, 2002, compared with net sales of $5.3 billion and operating profits of $83 million in 2001. As a result of weak market conditions in this segment, we announced the closure of certain structural panels mills, lumber mills, industrial wood products mills, and gypsum plants and recorded charges of $93 million in 2001 related to these plant closures and asset impairments, net of gains on asset sales. Excluding these net facility closure and asset impairment charges and goodwill amortization of $3 million in 2001, return on net sales was flat at 3% in 2002 and 2001. During 2002, average selling prices for plywood, treated lumber, softwood lumber, particleboard and oriented strand board decreased 5%, 9%, 4%, 8% and 2%, respectively, while sales volumes for gypsum declined 11% compared to the prior year. A 12% increase in gypsum selling prices and a 4% increase in sales volume for both plywood and oriented strand board somewhat offset these declines.

Building Products Distribution

The building products distribution segment reported net sales and operating profits of $3.8 billion and $50 million, respectively for the year ended December 28, 2002, compared with net sales of $3.8 billion and operating profits of $65 million in 2001. The decline in segment operating profits is primarily due to a decline in gross margins in 2002.

Other

The operating loss for the Other nonreportable segment, which includes some miscellaneous businesses, unallocated corporate operating expenses and the elimination of profit on intersegment sales, increased by $71 million to a loss of $703 million in 2002 from a loss of $632 million in 2001. Included in the 2002 loss are $378 million of pre-tax charges primarily for asbestos and business separation costs. The 2001 segment loss included pre-tax charges of $341 for asbestos, net of other one-time gains, and a pre-tax charge of $19 million for the write off of deferred debt issuance costs. Excluding these charges, the net change in the other segment was primarily driven by higher pension costs and foreign currency transaction losses.

Factors That May Affect Future Results

Some of the matters discussed in this Form 10-K concerning, among other things, the business outlook, anticipated financial and operating results, strategies, contingencies and our contemplated transactions, constitute forward-looking statements and are based upon management s expectations and beliefs concerning future events. There can be no assurance that these events will occur or that our results will be as estimated. In some cases, the forward-looking statements contained in this Form 10-K can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, or estimates, or the negative of these terms or other comparable terminology.

Forward-looking statements are only predictions. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements, which are based on information known today and speak only as of the date of the filing of this Form 10-K. Moreover, in the future, we, through our senior management team, may make additional or different forward-looking statements about the matters described in this document. We undertake no obligation to publicly revise any of these forward-looking statements to reflect changes in the facts or information on which they are based or any events or circumstances occurring after the date hereof. Actual events or future results may differ materially as a result of the following factors, as well as other factors described elsewhere in this Form 10-K, or in our other SEC filings, including our Form 8-K dated October 17 1996, which are incorporated herein by this reference.

The following factors, which we caution are not exclusive, are described in accordance with the provisions of the Private Securities Litigation Reform Act of 1995, which encourages companies to disclose these factors.

1. We have substantial indebtedness.

As described in this Form 10-K, we have substantial indebtedness. Our ability to meet our debt service obligations and to repay our outstanding indebtedness will depend in part on cash from operations and in part on cash produced by divestitures of some of our businesses. There can be no assurance that such divestitures will be consummated, or, if consummated, that the price and terms of such divestitures will be advantageous to us. Further, there can be no assurance that our businesses will be able to generate sufficient cash flows from operations, as they are subject to general economic, business, financial, competitive, legislative, regulatory and other factors beyond our control.

Our level of indebtedness may limit our ability to invest operating cash flow to expand our business, to capitalize on business opportunities and to react to competitive pressures or adverse changes in governmental regulation, because a substantial portion of these cash flows is needed to repay existing indebtedness, and there are limitations imposed by the terms of certain debt on our ability to borrow additional funds and to invest in certain kinds of assets. In addition, we could, under certain circumstances that management believes are unlikely to occur, be unable to refinance or obtain additional financing because of market conditions, our high levels of debt and the debt restrictions under our current debt agreements.

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On January 21, 2003, Moody s Investors Service announced that it had downgraded our senior implied and issuer debt ratings from Ba1 to Ba2 and our senior unsecured notes from Ba1 to Ba3. Moody s rating actions affected approximately $9 billion of debt securities. On January 29, 2003, Fitch Ratings announced that it had lowered our senior unsecured long-term debt ratings from BB+ to BB and withdrawn our commercial paper rating. Fitch s rating action with respect to the BB rating affected $1.5 billion of debt securities. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Any future reductions in our debt ratings could increase the costs of our future short-term financings.

2. Execution of Transformation Strategy.

Our long-term strategy is to improve our portfolio of businesses by divesting or exiting non-strategic businesses, and by acquiring and expanding businesses which are high value-added and that position Georgia-Pacific closer to its customers. A key to this transformation is our tissue business, which was expanded significantly with the acquisition of Fort James in late 2000. Although we believe that we have a strong cost position, superior manufacturing expertise and excellent brands, this business faces competition from established companies that may have more experience or expertise in marketing, advertising and brand management than we currently have. To succeed, we must continue to develop brand recognition and loyalty, product quality and performance, and our marketing and distribution capabilities. Aggressive reaction by competitors has led to decreased pricing and increased advertising and promotional spending by us in order to maintain market share in this segment as well as others. In addition, to successfully achieve our strategy we will need to rely heavily on the development and introduction of new products and product line extensions as a means of achieving and/or maintaining leadership in various product categories.

3. Competition and Volatility of Commodity Businesses.

We face intense competition from both large international and small domestic producers in most of our businesses. However, operating results are particularly volatile for the our building products and pulp and paper businesses because most of these products are commodities, for which price is the principal competitive factor. We cannot control such factors as decreasing demand from customers or increasing supply from competitors, both of which cause price decreases for such products and in turn adversely affect our net sales, operating income and cash flows.

4. Costs Associated with Environmental Compliance and Remediation and Litigation.

Our operations are subject to significant regulation by federal, state and local environmental and safety authorities. The costs of compliance with existing and new regulatory schemes could require significant capital expenditures that would decrease the amount of funds available for investment in other areas of our operations. For example, the United States Environmental Protection Agency has recently issued new air emission regulations, known as MACT or Maximum Achievable Control Technology regulations, as described under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. The costs of compliance with these regulations, and additional or supplementary regulations, cannot be quantified in all cases, and there can be no assurance that the costs of such compliance will not be material to our results of operations in certain reporting periods. In addition, the costs of remediating known environmental sites, as described in Note 17 of the Notes to Consolidated Financial Statements, in some instances has been significant and remediation of future sites could also be significant. There can be no assurance that the final remediation costs will equal currently estimated costs or that additional sites will not require significant remediation expenses.

We are subject to significant asbestos litigation liabilities and costs, as discussed below, and to other litigation risks that are similar to other corporations of our size and complexity in an increasingly litigious environment. While we do not believe that any of these matters will be material to our long term financial status,

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as disclosed under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Other and Note 17 of the Notes to Consolidated Financial Statements, certain litigation related matters may be material to our results of operations in certain reporting periods.

5. Costs Associated with Asbestos Liabilities and Litigation.

In fiscal 2001, 2002 and 2003, working with National Economic Research Associates (NERA) and Navigant Consulting (formerly known as Peterson Consulting), our external consultants, we recorded pre-tax charges totaling $563 million for asbestos liabilities and defense costs, net of anticipated insurance recoveries, that we expect to pay through 2013.

Projecting liabilities for asbestos litigation is subject to a number of important risks and uncertainties, including the possibility that the number of asbestos claims filed against us in the future will be greater than projected; the risk that the cost of defending and settling current and future asbestos claims will be higher than projected, resulting in more rapid depletion of available insurance coverage and higher out-of-pocket costs; the possibility of additional insolvencies among insurance carriers; the risk that final resolution of allocation, coverage or other issues affecting available insurance coverage will result in lower insurance recoveries than forecast; the possibility that adverse jury verdicts could require us to pay damages in amounts greater than the amounts for which we now settle cases; and the risk that bankruptcies of other asbestos defendants may increase our costs in the future.

These or other factors could cause our actual liabilities to be materially higher, and our insurance recoveries to be materially lower, than those projected and recorded to date. If these or other factors cause us to determine that the assumptions used by NERA or Navigant Consulting in their latest projections are no longer reasonable, or if we determine that our asbestos exposure net of insurance recoveries for years after 2013 will be material, we may have to establish additional reserves relating to asbestos beyond the charges already taken, and the amount of these reserves may be material. We cannot estimate the amount of any such additional reserves at this time.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Quantitative and Qualitative Disclosures about Market Risk information for us required by this Item are set forth under Item 7. Management s Discussion and Analysis Liquidity and Capital Resources Financing Activities and is incorporated herein by reference thereto.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

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REPORT ON MANAGEMENT S RESPONSIBILITIES

Georgia-Pacific Corporation and Subsidiaries

Management of Georgia-Pacific Corporation is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements and the estimates and judgments upon which certain amounts in the financial statements are based. Management is also responsible for preparing the other financial information included in the annual report on Form 10-K. In our opinion, the accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, and the other financial information in the annual report on Form 10-K is consistent with the financial statements.

Management is also responsible for establishing and maintaining a system of internal control over financial reporting, which encompasses policies, procedures, and controls directly related to, and designed to provide reasonable assurance as to, the reliability of the published financial statements. An independent assessment of the system is performed by our internal audit staff in order to confirm that the system is adequate and operating effectively. This assessment is based on criteria for effective internal control over financial reporting established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our independent auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements. Management has considered any significant recommendations regarding the internal control system that have been brought to its attention by the internal audit staff or independent auditors and has taken steps it deems appropriate to maintain a cost-effective internal control system. The Audit Committee of the Board of Directors, consisting of independent directors, provides oversight to the financial reporting process. Our internal auditors and independent auditors meet regularly with the Audit Committee to discuss financial reporting and internal control issues and have full and free access to the Audit Committee.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of an internal control system can vary over time due to changes in conditions.

Management believes that as of January 3, 2004, the internal control system over financial reporting is adequate and effective in all material respects.

JAMES E. TERRELL

Vice President and Controller

DANNY W. HUFF

Executive Vice President Finance and Chief Financial Officer

A.D. CORRELL

Chairman and Chief Executive Officer

January 30, 2004

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REPORT OF INDEPENDENT AUDITORS

Board of Directors, Georgia-Pacific Corporation:

We have audited the accompanying consolidated balance sheets of Georgia-Pacific Corporation (a Georgia corporation) and subsidiaries as of January 3, 2004 and December 28, 2002 and the related consolidated statements of operations, shareholders equity, comprehensive income (loss), and cash flows for each of the three years in the period ended January 3, 2004. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Georgia-Pacific Corporation and subsidiaries at January 3, 2004 and December 28, 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 3, 2004, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1, 7, 8 and 12 to the consolidated financial statements, in 2003, the Corporation adopted the expense recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation,* as amended, and SFAS No. 143, *Accounting for Asset Retirement Obligations;* in 2002, the Corporation ceased amortization of goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* and, in 2001, the Corporation adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

Atlanta, Georgia

January 30, 2004

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GEORGIA-PACIFIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
	2003	**2002**	**2001**
In millions, except per share amounts			
Net sales	$ 20,255	$ 23,271	$ 25,016
Costs and expenses:			
Cost of sales	15,849	18,115	19,276
Selling and distribution	1,307	1,869	2,025
Depreciation, amortization and accretion	1,045	1,030	1,343
General and administrative	865	1,054	1,072
Interest, net	833	841	1,080
Other losses, net	21	870	534
Total costs and expenses	19,920	23,779	25,330
Income (loss) from continuing operations before income taxes	335	(508)	(314)
Provision (benefit) for income taxes	109	(318)	174
Income (loss) from continuing operations	226	(190)	(488)
Income from discontinued operations, net of taxes			70
Income (loss) before accounting changes	226	(190)	(418)
Cumulative effect of accounting changes, net of taxes	28	(545)	11
Net income (loss)	$ 254	$ (735)	$ (407)
Georgia-Pacific Group			
Income (loss) from continuing operations	$ 226	$ (190)	$ (488)
Cumulative effect of accounting changes, net of taxes	28	(545)	11
Net income (loss)	$ 254	$ (735)	$ (477)
Basic per share:			
Income (loss) from continuing operations	$ 0.90	$ (0.80)	$ (2.14)
Cumulative effect of accounting changes, net of taxes	0.11	(2.29)	0.04
Net income (loss)	$ 1.01	$ (3.09)	$ (2.10)
Diluted per share:			
Income (loss) from continuing operations	$ 0.90	$ (0.80)	$ (2.14)
Cumulative effect of accounting changes, net of taxes	0.11	(2.29)	0.04
Net income (loss)	$ 1.01	$ (3.09)	$ (2.10)

Average number of shares outstanding:			
Basic	250.4	237.6	227.6
Diluted	251.4	237.6	227.6
The Timber Company			
Income from discontinued operations, net of taxes			$ 70
Basic per common share			$ 0.86
Diluted per common share			$ 0.86
Average number of shares outstanding:			
Basic			81.0
Diluted			81.7

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

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GEORGIA-PACIFIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
In millions, except per share amounts	**2003**	**2002**	**2001**
Cash flows from operating activities:			
Net income (loss)	$ 254	$ (735)	$ (407)
Adjustments to reconcile net income (loss) to cash provided by operations, excluding the effects of acquisitions and divestitures:			
Cumulative effect of accounting changes, net of taxes	(28)	545	(11)
Depreciation	1,009	1,000	1,079
Amortization of intangibles and goodwill and accretion	36	30	267
Deferred income taxes	(110)	(24)	(132)
Other losses, net	21	870	514
(Increase) decrease in receivables	(42)	(94)	265
(Increase) decrease in inventories	(16)	(2)	203
(Decrease) increase in accounts payable	(12)	120	(71)
Change in bank overdrafts	45	(71)	94
Change in other working capital	128	(161)	(228)
Change in taxes receivable/payable	341	(288)	(26)
Change in other assets and other long-term liabilities	130	(144)	(56)
Other, net	49	(37)	(10)
Cash provided by operations	1,805	1,009	1,481
Cash flows from investing activities:			
Property, plant and equipment investments	(710)	(693)	(739)
Timber and timberland purchases			(31)
Acquisitions	(10)	(6)	(133)
Proceeds from sales of assets	92	668	2,311
Other	(37)	(31)	(66)
Cash (used for) provided by investing activities	(665)	(62)	1,342
Cash flows from financing activities:			
Repayments and maturities of long-term debt	(8,090)	(5,030)	(2,631)
Additions to long-term debt	7,165	5,680	631
Fees paid to issue debt	(55)	(14)	(39)
(Decrease) increase in bank overdrafts	(45)	71	(94)
Decrease in accounts receivable secured borrowings and short-term notes	(21)	(1,574)	(690)
Proceeds from option plan exercises	18	4	129
Employee stock purchase plan	23	37	36
Cash dividends paid ($0.50 per share in 2003 and 2002, $0.50 and $0.75 per share for Georgia-Pacific Group and The Timber Company, respectively, in 2001)	(126)	(118)	(175)
Cash used for financing activities	(1,131)	(944)	(2,833)

Increase (decrease) in cash	9	3	(10)
Balance at beginning of year	42	39	49
Balance at end of year	$ 51	$ 42	$ 39
Supplemental disclosures of cash flow information:			
Noncash investing and financing activity:			
Redemption of senior deferrable notes and issuance of common stock (see Note 10)	$	$ 863	$
Unisource sale/leaseback transaction (see Note 4)	$	$ 169	$

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

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GEORGIA-PACIFIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

In millions, except shares and per share amounts	January 3, 2004	December 28, 2002
ASSETS		
Current assets:		
Cash and equivalents	$ 51	$ 42
Receivables, less allowances of $42 and $39, respectively	1,915	1,777
Inventories		
Raw materials	632	590
Finished goods	1,178	1,116
Supplies	516	507
LIFO reserve	(134)	(77)
Total inventories	2,192	2,136
Deferred income tax assets	125	35
Taxes receivable		334
Other current assets	315	402
Total current assets	4,598	4,726
Property, plant and equipment		
Land and improvements	606	566
Buildings	2,254	2,128
Machinery and equipment	16,606	15,844
Construction in progress	281	258
Property, plant and equipment, at cost	19,747	18,796
Accumulated depreciation	(10,627)	(9,474)
Property, plant and equipment, net	9,120	9,322
Goodwill, net	7,656	7,663
Intangible assets, net	716	676
Other assets	2,315	2,242
Total assets	$ 24,405	$ 24,629
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Secured borrowings and short-term notes	$ 689	$ 710
Current portion of long-term debt	789	621
Accounts payable	1,563	1,532

Accrued compensation	267	291
Other current liabilities	1,115	891
Total current liabilities	4,423	4,045
Long-term debt, excluding current portion	9,170	10,185
Other long-term liabilities	3,832	4,397
Deferred income tax liabilities	1,586	1,442
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued or outstanding		
Junior preferred stock, no par value; 25,000,000 shares authorized; no shares issued or outstanding		
The Timber Company common stock, par value $0.80; 250,000,000 shares authorized; no shares issued or outstanding		
Georgia-Pacific Group common stock, par value $0.80; 400,000,000 shares authorized; 252,980,000 shares and 250,238,000 shares issued and outstanding at January 3, 2004 and December 28, 2002, respectively	202	200
Additional paid-in capital	3,473	3,413
Retained earnings	1,596	1,468
Long-term incentive plan deferred compensation	(1)	(2)
Accumulated other comprehensive income (loss)	124	(519)
Total shareholders equity	5,394	4,560
Total liabilities and shareholders equity	$ 24,405	$ 24,629

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

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GEORGIA-PACIFIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Fiscal Year Ended		
	2003	**2002**	**2001**
In millions, except shares in thousands and per share amounts			
Common stock:			
Beginning balance	$ 200	$ 184	$ 182
Common stock issued:			
Stock option plans and directors plan	1		4
Employee stock purchase plans	1	1	1
Common stock issued for PEPS conversion		15	
Spin off of The Timber Company			(3)
Ending balance	202	200	184
Treasury stock:			
Beginning balance			(330)
Spin off of The Timber Company			330
Ending balance			
Additional paid-in capital:			
Beginning balance	3,413	2,521	2,427
Common stock issued:			
Stock option plans and directors plan	28	8	149
Employee stock purchase plans	22	36	35
Restricted stock issuance	10		
Common stock issued for PEPS conversion		848	
Common stock issued for acquisitions			5
Spin off of The Timber Company			(95)
Ending balance	3,473	3,413	2,521
Retained earnings:			
Beginning balance	1,468	2,321	3,463
Net income (loss)	254	(735)	(407)
Spin off of The Timber Company			(560)
Cash dividends declared (Georgia-Pacific Group, $0.50, per common share for each of the three years presented; The Timber Company, $0.75 per common share for 2001)	(126)	(118)	(175)
Ending balance	1,596	1,468	2,321
Long-term incentive plan deferred compensation:			
Beginning balance	(2)	(3)	(4)
Common stock issued under long-term incentive plan, net	1	1	1
Ending balance	(1)	(2)	(3)
Accumulated other comprehensive income (loss):			

Beginning balance	(519)	(118)	(16)
Activity, net of taxes	643	(401)	(102)