CROWN ZELLERBACH

1982 Annual Report

PUTTING IT ALL TOGETHER

CZ's CREATIVE MANAGEMENT OF RESOURCES

HIGHLIGHTS

	1982	1981
	(In millions of dollars, except per share amounts)	
Sales and Earnings		
Net sales	$2,947.4	$3,148.3
Income (loss) before income taxes	$ (143.7)	$ 101.1
Taxes on income	$ (31.5)	$ 25.8
Net income (loss)	$ (112.2)	$ 75.3
Financial Position		
Working capital	$ 443.5	$ 398.9
Total assets	$2,385.6	$2,614.1
Long-term debt	$ 611.2	$ 626.4
Preferred stock	$ 200.0	$ 125.0
Common stock equity	$ 920.2	$1,097.2
Per Share of Common Stock		
Net income (loss)	$ (4.86)	$ 2.47
Common dividends declared	$ 1.65	$ 2.30
Common stock equity	$ 34.19	$ 40.86
Additional Information		
Internal funds generated	$ 113.5	$ 194.7
Dividends declared	$ 62.7	$ 71.2
Additions to properties	$ 305.4	$ 345.7
Depreciation, amortization, depletion and cost of timber harvested	$ 124.4	$ 118.9
Average common shares outstanding (in millions)	26.9	25.8
Holders of record of common shares	26,868	26,328
Employees	25,739	28,407

SUMMARY OF RESULTS

The combined effects of the recession and unusual charges against earnings primarily related to selling Crown Zellerbach Canada Limited and restructuring domestic operations resulted in a net loss of $112 million, or $4.86 per share.

The unusual charges alone amounted to $125 million after taxes. Of the total, $76 million resulted from the Canadian transaction, and the other $49 million from writing down the cost of certain assets, providing for restructuring some operations, and recognizing future early retirement obligations.

The recession continued to impact Crown's major businesses heavily. Sales volume and prices declined, squeezing profit margins for most paper products, particularly newsprint, pulp and corrugated containers. Lumber, plywood and export log sales and prices were sharply lower for most of the year due to the housing industry depression. This resulted in widening losses, especially in Canada, that could only be minimized by curtailing production and closing down operations. The general decline in business activity cut deeply into wholesale distribution earnings, and energy operations were significantly less profitable than in the past.

On the positive side, converted paper products, specialty packaging and nonwoven fabrics recorded higher earnings than in 1981, and domestic operations as a whole produced income of $29 million before taxes and unusual items. That was offset, however, by the Canadian subsidiary's losses.

Consolidated sales declined to $2.9 billion, compared with sales of $3.1 billion and net income of $75 million in 1981.

Annual Meeting

The Annual Meeting of Stockholders of Crown Zellerbach Corporation will be held in the Masonic Auditorium, 1111 California Street, San Francisco, California, at 11 o'clock A.M. on Thursday, May 12, 1983. A notice of the meeting and proxy material will be mailed to stockholders on approximately April 1.

To Our Shareholders, Customers & Employees

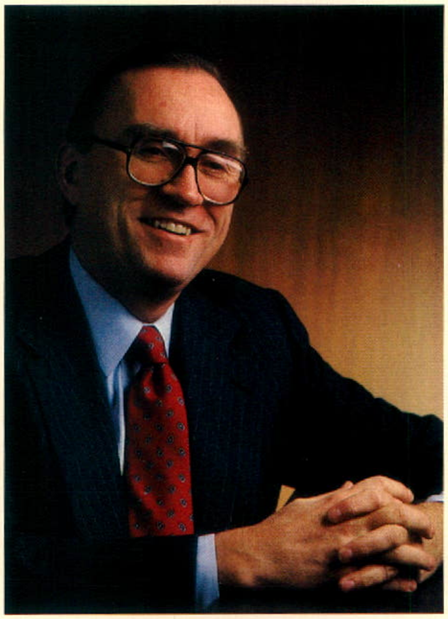
1982 was a year of major strategic redirection to put Crown Zellerbach on track to improved cost effectiveness and profitability. The results reflect encouraging progress toward those goals. Our efforts were concentrated on certain objectives that are basic to our long-term planning:

Asset Redeployment. The key elements of our plan are to focus the company's resources—human, physical and financial—on the most promising markets available to us, and to develop cost-effective production and marketing systems to supply them. This involves shifting resources from operations that cannot meet those criteria to others that do meet them.

In 1982, we agreed to sell our interests in Crown Zellerbach Canada Limited and Norsk Pacific Steamship Company, and we sold interests in a northern California pulp mill, a Chilean paper operation and some smaller, non-economic facilities. When completed, these sales will have produced a total cash flow of about $200 million to reinvest in key domestic operations and strengthen our financial position.

1982's results reinforce the validity of that strategy. Although unusual charges and continuing losses by Crown Canada produced a net loss for the corporation as a whole, the domestic operations on which we are focusing our resources produced pretax profits of $29 million in the worst year of the current recession.

Cash Conservation and Cost Containment. To sustain a prudent level of capital investment and continue the modernization of our large pulp and paper mill at Camas, Washington, in the face of the recession, non-strategic expenditures were deferred or eliminated from the capital spending budget, reducing it from a projected $330 million to $305 million. Costs were substantially reduced by streamlining the salaried and hourly workforces, and by instituting productivity improvement programs, increasing energy efficiency through the use of alternative fuels, cogeneration and conservation, and controlling sales and administrative expenses. Finally, to conserve cash the annual common stock dividend was reduced to $1.00 from $2.30 per share.



W.T. Creson

Capital Restructuring. In addition to cash proceeds and debt reductions resulting from the sale of non-strategic facilities, the balance sheet was materially strengthened by replacing $150 million of variable-rate debt through intermediate-term borrowings at competitive rates, and by a new issue of cumulative preferred stock.

Operations Restructuring. Key management decisions were made to restructure operations over the next two or three years, which resulted in writing down certain assets and making provision for their disposal. An early retirement program was offered certain employees as part of streamlining our operations. We elected to recognize these obligations during 1982.

Management Team. A reorganized management team was developed with more direct reporting lines, closer coordination and wider participation in corporate decision making.

These examples of the coordinated, creative management of resources that Crown is achieving are described in more detail in the remainder of this report. Through this process, a new Crown Zellerbach is evolving with fully competitive mills and plants and a more productive work force serving our most profitable markets from a sound financial base.

Looking ahead, the economic indicators for our industry point to recovery beginning in the second quarter of 1983 and gathering momentum as we move into 1984. Crown enters this recovery period stronger, better equipped and more determined than ever before to build the value of our company for shareholders, employees and customers.

W.T. Creson

W.T. Creson
Chairman of the Board,
President and
Chief Executive Officer

March 3, 1983
San Francisco, California

Water vapor illuminates the night sky over Crown Zellerbach's modern pulp and paper mill at Wauna, Oregon.

CREATIVE MANAGEMENT OF RESOURCES

When union loggers in Crown Zellerbach's Oregon and Washington forests agreed to a unique, productivity-oriented working arrangement last fall, a union official described it to *Business Week* as "a joint effort to attain a common goal."

While the comment referred to only one of many innovative steps Crown has taken to increase productivity and profitability, it accurately describes a spirit that pervades the company today: a concerted, coordinated effort to attain a common goal.

The goal is to improve Crown's competitive position by obtaining maximum productivity from all resources—human, physical and financial—and directing those resources into markets that offer the best returns. Thus our strategic planning emphasizes the need for constantly improving the management of resources, from the forests that provide our basic raw materials, to the mills and plants that produce our wood, paper, packaging and other products, the capital resources that support our operations and, most important of all, the 20,000 men and women who make the company go.

Human Resources

From outward appearances perhaps the most dramatic results have been in the redirection of capital through the sale of assets that do not fit our blueprint for the future, such as Crown Zellerbach Canada Limited. But in terms of the company's long-term development, the most significant progress has been in the management of human resources to develop both the right organization and the right spirit to make our plans work.

The organizational restructuring began early last year with a major realignment of senior management responsibilities to provide closer coordination among principal operating units with related resources and objectives. Fiber-based groups (Timber and Wood Products, Pulp and Paper, Containers) were aligned to one senior operating officer, Executive Vice President Scott B. Weldon. Service and technology-based groups (Distribution, Specialty Packaging and Chemicals, International Marketing) were aligned to another, Executive Vice President Ernest A. Mitchell.

Several tiers of administrative management were eliminated, and both salaried and hourly workforces were streamlined, largely through early retirements, attrition and closing noneconomic facilities. These cost savings, combined with significant productivity improvements and an eight percent reduction in inflation-adjusted sales and administrative expenses since 1980, have already lowered breakeven levels by up to 30 percent in some of our major businesses. By mid-1983, when we have reached our targeted 20 percent reduction in salaried positions—a total of approximately 1,400—the saving in personnel costs alone will amount to about $60 million per year.

A $425 million investment in modernization will make the Camas, Washington, pulp and paper mill one of the largest, most cost-effective producers of bleached papers.

A pioneering agreement with Crown Zellerbach loggers in Oregon and Washington is one illustration of "a joint effort to attain a common goal."

Corporate Beliefs

Along with this physical reorganization, Crown is refreshing and redirecting the spirit of its human resources. Executive Vice President MacDonald S. Denman was appointed chief administrative officer to develop and direct a company-wide program to broaden involvement in the operation of the company and foster a greater sense of personal responsibility for its progress in every employee.

A set of *Corporate Beliefs* has been adopted committing Crown to "unleashing the constructive and creative abilities and energies of each of its employees" in order to achieve:

- Superior value for customers
- Superior returns for shareholders
- Superior rewards for employees

A "collegial" management philosophy has been adopted that involves wider participation in addressing the major issues that confront the company. Organizational effectiveness training has been instituted that eventually will involve all personnel, along with a program to evaluate and direct employee capabilities more effectively. A new compensation policy for salaried employees places primary emphasis on personal performance and less on length of service. And although the recession made it necessary to suspend bonuses and virtually cease hiring, Crown was able to avoid the across-the-board salary cuts and freezes imposed by many other large companies.

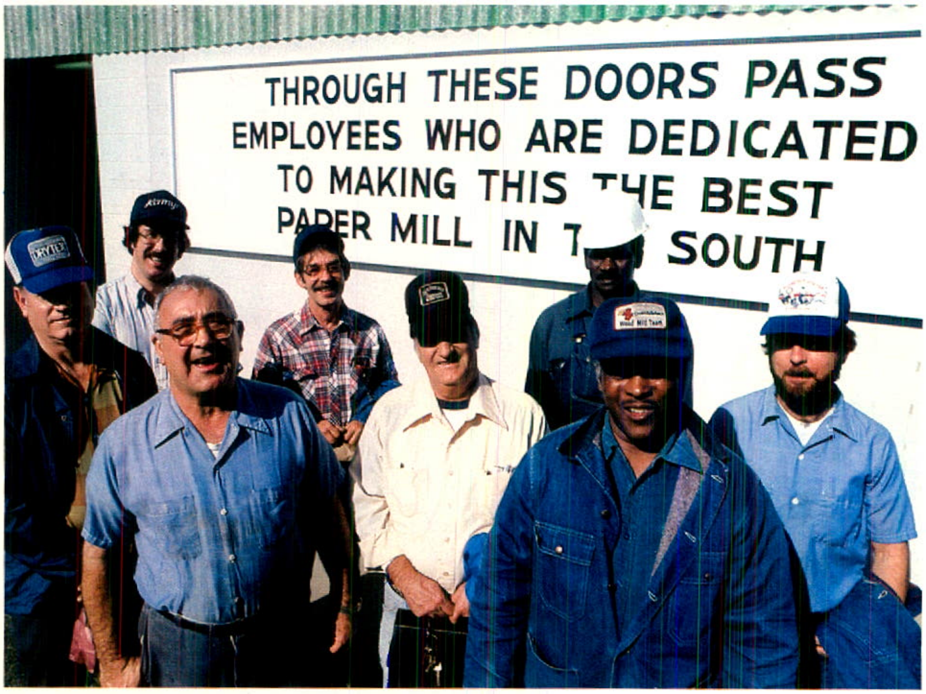
Pay For Production

Our labor relations policies emphasize innovation and mutuality of interests at the production level, as well. The previously mentioned five-year agreement with International Woodworkers of America loggers in Washington and Oregon, for example, replaces traditional wage scales and restrictive work rules with a pay-for-production system in which logging crews participate in planning and organizing their own work.

Extensive employee participation in decision-making played a large part in the successful installation and startup of our new nonwoven fabrics plant near Camas, Washington. Unique "gainsharing" programs for some 2,400 employees at the Camas and Port Townsend, Washington, paper mills offer yearly bonuses for productivity improvements. More flexible work rules are increasing productivity and lowering costs at our Bogalusa and St. Francisville, Louisiana, mills, and long-term collective bargaining contracts at Camas, Port Townsend, and Wauna, Oregon, provide increased stability for management and greater job security for our employees.

The results of these changes are already evident in improving productivity and growing employee dedication. We believe they will become increasingly evident as the economy improves and, with it, our profitability.

At the same time, high priority has been given to cushioning the impact of necessary workforce reductions as much as possible. Carefully planned early retirement programs were offered and accepted by approximately 850 employees, considerably more than half of those eligible. Others whose jobs have had to be eliminated have been offered assistance in qualifying for others with the company or finding positions elsewhere.



Early arrivals for a change of shift personify the challenging message of a sign at an entrance to Crown Zellerbach's Bogalusa, Louisiana, pulp and containerboard mill.

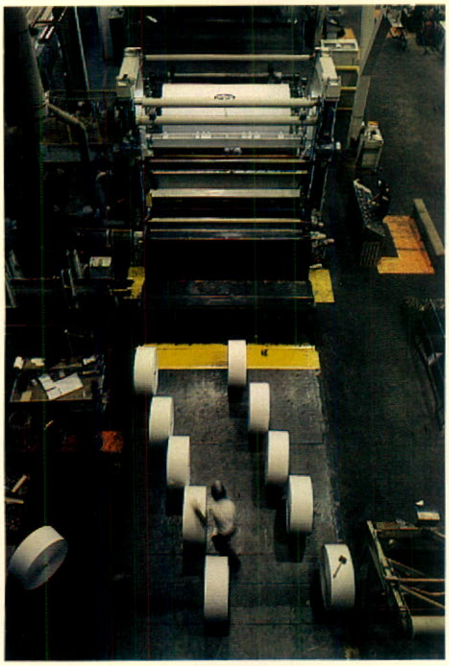
"The constructive and creative abilities and energies of each of its employees" are, collectively, one of the three main resources managed by Crown Zellerbach.

Physical Resources

After human resources, Crown Zellerbach's greatest strength is in physical resources, especially timber and land. To obtain maximum return from those resources, we are focusing our efforts and investments on four U.S. production and marketing systems, each with an ample fiber source and cost-effective converting facilities serving profitable markets. These systems are centered in the company's extensive timber holdings in the Pacific Northwest and the South, with the world-scale pulp, paper and containerboard mills at Camas, Wauna, Bogalusa and St. Francisville as their "cores". Each mill is supported by the timber resources of scientifically managed forests owned or controlled by Crown, and each has been or, in the case of Camas, is now being modernized to become a cost-effective supplier to markets with excellent growth potential.

The $425 million modernization of the

Log processing center at Holden, Louisiana, captures the residuals from lumber production to supply fiber and fuel for nearby Crown Zellerbach "core" mills.



Rolls of business papers from one of the world's fastest white paper machines are tailored to the widths of customers' converting equipment at the Wauna mill.

Camas mill is the largest single capital investment project in the company's history. When it is completed in 1984, Camas will be one of the industry's largest and most cost-effective producers of business papers, with state-of-the-art pulping and bleaching facilities and a new, high-speed paper machine capable of delivering 160,000 tons a year of computer and other business papers. It will also be more energy efficient, cheaper to operate and able to meet 1984 environmental quality standards.

St. Francisville has been upgraded to one of the country's highest quality producers of publication papers. Wauna now boasts one of the world's fastest machines for producing business papers, and Bogalusa is becoming one of the industry's more cost-effective producers of linerboard.

In addition to the new nonwoven fabrics plant in Washington, 1982 modernizations and expansions included a new power co-generating complex at our Antioch, California, containerboard recycling mill that will reduce purchased energy requirements by the equivalent of 200,000 barrels of fuel oil per year. We also installed a new flexible packaging plant in Tennessee, added a small paper napkin and place-mat production facility in southern California and enlarged our nationwide wholesale distribution system.

Redirecting Assets

Keeping the required financial and management focus on major businesses necessarily means consolidating and simplifying the company as a whole by redirecting assets from operations that do not fit long-range plans to those that do. This involves selling or closing some units of the company in order to strengthen the rest.

Thus in 1982, we sold our interests in a pulp mill in California and a paper operation in Chile, along with several small box plants and other noneconomic facilities, and we negotiated an agreement to sell our interest in Crown Zellerbach Canada Limited. This not only provides funds to help support the modernizations and expansions, but also strengthens Crown's financial position.

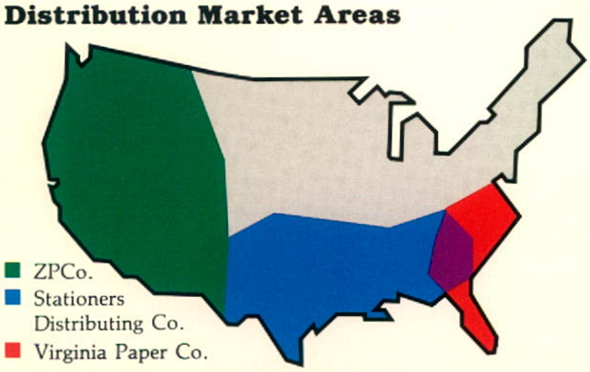
Another important objective of our restructuring program is close geographic linkage among managed forests, wood converting facilities and "core" pulp and paper mills. This means maintaining only those timberlands which can supply "core" systems economically and either selling or exchanging those that cannot. In 1982, for example, Crown agreed to sell a major lumber and plywood operation at Joyce, Louisiana, that could not economically provide residual fiber to the Bogalusa and St. Francisville mills, while maintaining full production at our Holden and Ponchatoula, Louisiana, wood conversion units, which do supply them. Several other wood products plants in the Pacific Northwest also have been closed or curtailed and offered for sale, either because they are not equipped to convert the mix of available logs efficiently, or because they are not positioned to supply the "core" mills at Camas and Wauna economically.

Focus On Profits

While these major changes were going on, Crown continued to concentrate on other operations of proven profitability, especially wholesale distribution, specialty packaging and nonwoven fabrics. These are businesses in which strong marketing and innovative research and development have earned advantageous market positions for the company.

One third or more of Crown's total revenue flows from distribution operations, which now cover the western U.S. and stretch across the "Sun Belt" and through the southeastern states. Through this network, the Distribution Group supplies paper products and office and industrial supplies to some 110,000 customers in 30 states. Because wholesale distribution is characterized by low profit margins and relatively high working capital requirements, the key to success is maintaining high sales volume by aggressive marketing and superior service through highly efficient distribution centers. In 1982, the Distribution Group added two facilities in the South and Southeast to serve new markets and significantly extended its computerization of customer

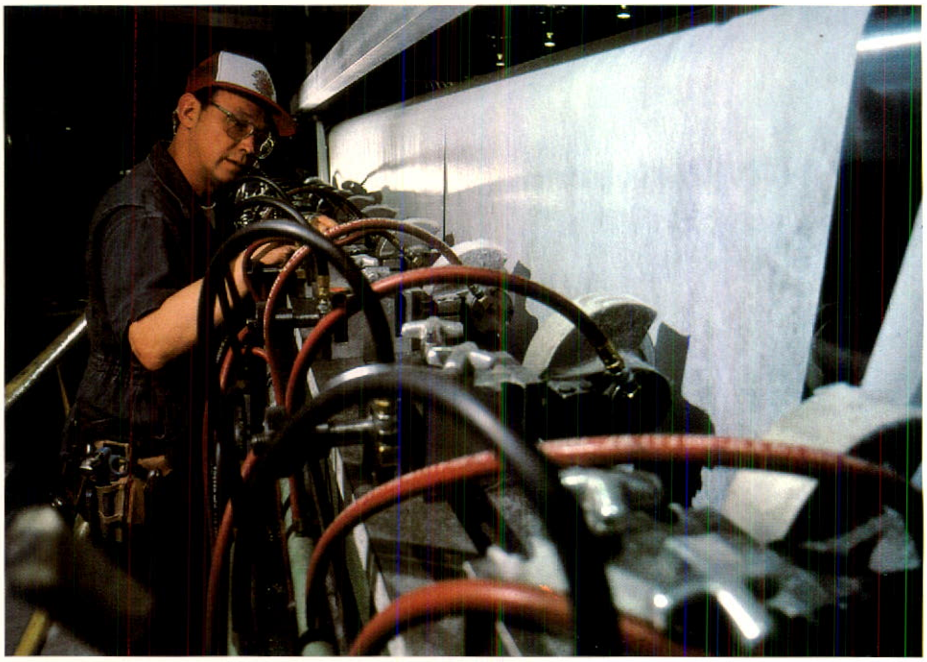
Distribution Market Areas



Three main components of Crown Zellerbach's Distribution Group span regions of the United States with expanding populations and economies.

service and inventories to further improve productivity.

William J. Zellerbach, who headed the distribution organization for 22 years and supervised its growth from a regional supplier to its present national stature, stepped down and was succeeded by Frederick J. Stabbert, formerly executive vice president for distribution operations. Mr. Zellerbach, who is a senior vice president and director of the parent company, became special assistant to William T. Creson, chairman, president and chief executive officer.



Crown Zellerbach's capacity in the high-growth nonwoven fabrics business was tripled in 1982 by a new state-of-the-art facility at Camas-Washougal, Washington.

Impressive Growth

Crown's fastest growing business is Specialty Packaging and Chemicals. Since 1978, this Group's sales have been increasing at a 12 percent compounded annual rate, with a comparable pretax earnings increase of 20 percent. One reason for this sustained growth is that the principal market for specialty packaging, the food industry, tends to be recession resistant. But a more important reason is Crown's superior technological capability in meeting market needs. The requirements of modern packaging change ceaselessly as new products appear and public tastes change. Since the introduction of polyethylene film for bread wrapping about 25 years ago, Crown has steadily improved the state of the art in flexible packaging by applying advanced research and manufacturing expertise to solving customer needs. The result is that today Crown Zellerbach is recognized as a national leader in this dynamic business. In 1982, the division widened its scope by opening a new facility in Jackson, Tennessee, to supply the market for coated and laminated industrial packaging.

Meeting customer needs through research, manufacturing and design expertise makes Crown Zellerbach an industry leader in the dynamic specialty packaging field.

Nonwoven fabrics is another high-growth business in which Crown is achieving a major position. According to a recent study, production of these textiles spun from tiny threads of polypropylene is expected to increase from an estimated 1.5 billion pounds in 1982 to 2.2 billion pounds in 1987. Originally marketed principally as a disposable replacement for cloth in hospital garments and bedding, nonwoven fabrics soon began appearing in a variety of widely used products, such as sanitary napkins and disposable diapers, carpeting and furniture. While competing successfully in these markets, Crown has concentrated its research in the area of geotextiles, which are nonwoven fabrics used to facilitate drainage and increase stability in soil. The result is that Crown Zellerbach's *Fibretex* is now the preferred nonwoven fabric in the construction industry for soil stabilization, road and rail underlayment and linings for drains and ponds. It was in response to this increasing demand that the Nonwoven Fabrics Division opened its new, 72,000-square-foot plant in 1982, tripling its capacity for these unusual and durable fabrics.

Financial Resources

The management of human and physical resources can be effective only if the financial resources that support them are managed with equal skill. At Crown, financial resource management has had two principal objectives: first, to strengthen the balance sheet by reducing short-term variable-rate debt and, second, to generate funds to support the long-range strategic plan.

The company has moved swiftly and decisively to achieve these goals under the direction of Executive Vice President George B. James, who became chief financial officer in March of 1982. Despite a reduction in debt ratings applied to most of the industry by major rating agencies, intermediate-term borrowings totaling $220 million were arranged at competitive interest rates in U.S. and European financial markets. One of those transactions, involving an exchange of Swiss francs for dollars with the Austrian national bank, was so innovative that it was featured in national business publications.

The company then sold 3.75 million shares of cumulative preferred stock, which produced another $75 million for use as working capital and to carry on the modernization program. And to conserve cash as the recession deepened, the Board of Directors in August reduced the company's common stock dividend, for the first time in 11 years, from $2.30 to $1.00 per year, saving an additional $35 million a year.

Those were difficult decisions, but even tougher ones remained to be made. These involved planning the sale of assets not included in the long-term strategy to help finance the modernization of key facilities and strengthen the company's overall financial position. This "monetization for modernization" process culminated in the agreement to sell Crown's 84 percent interest in Crown Zellerbach Canada Limited and 100 percent interest in Norsk Pacific Steamship Company to Fletcher Challenge Limited of New Zealand for $242 million.

Crown's financial resources are being managed with the same objective as our human and physical resources—maximum productivity...

Growth Opportunities

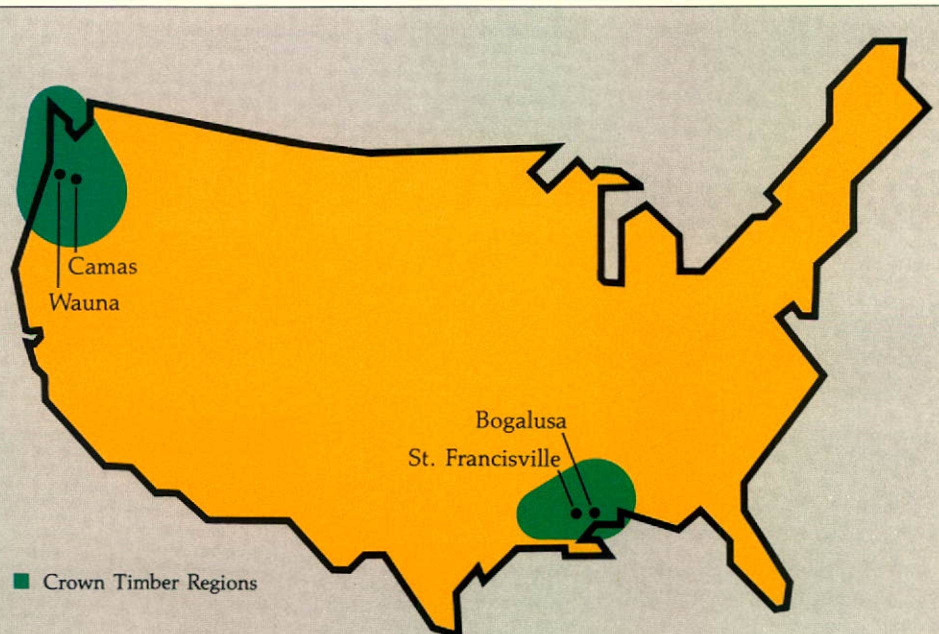
Although Crown Canada had been a profitable investment in the past, it did not offer the parent company long-term strategic advantages or growth opportunities comparable to those available within our domestic operations. Moreover, during 1982 the Canadian subsidiary incurred substantial losses, largely as a result of the depression in U.S. housing construction and sluggish markets for newsprint and pulp. This resulted in charges against Crown Zellerbach's consolidated 1982 earnings of US$13 million, or 47 cents per share, whereas the sale will provide the parent company with cash proceeds of $160 million, net of tax payments, and a $75 million note payable in five years. It also reduces consolidated debt by US$123 million in external borrowings by the Canadian company.

The same strategic planning led to the sales of Crown's half interests in a Fairhaven, California, pulp mill and a paper mill at Laja, Chile. These two transactions provided a cash flow of $34 million, and the sale of the Joyce, Louisiana, lumber and plywood complex will generate additional cash.

In these and many other ways, Crown's financial resources are being managed with the same objective as our human and physical resources—maximum productivity for maximum returns for our shareholders, security for our employees and satisfaction for our customers.

Fiber Sources and Core Mills

Crown's strategic planning focuses on domestic production and marketing systems in the Pacific Northwest and the South, with world-scale pulp, paper and containerboard mills at Camas, Wauna, Bogalusa and St. Francisville as their "cores." Each system is supported by the ample fiber sources of company timberlands.



OPERATIONS REVIEW

Overview

Although depressed by the recession, domestic operations were narrowly profitable in 1982. Those earnings were more than offset, however, by unusual charges against earnings related to selling Crown Zellerbach Canada Limited and restructuring domestic operations and by continuing losses from the Canadian company. The result was a net loss of $112 million for the year.

Net after-tax unusual charges to earnings totaled $125 million, the largest portion of which, $76 million, related to the sale of Crown Zellerbach's 84 percent interest in the Canadian subsidiary. The remaining $49 million—net of gains on the sale of two joint venture operations—resulted from providing for dispositions, closure costs and losses on restructured operations, recognition of future obligations related to a 1982 early retirement program, and writing down the cost of non-operating assets and previously purchased timber cutting contracts. Although industry efforts to modify contracts for government timber continue, they were unsuccessful in 1982.

Along with Canadian operating losses in all four quarters, Crown's domestic businesses had a fourth-quarter operating loss before unusual items caused by production curtailments due to weak markets, writing down inventories of linerboard, pulp and logs to reflect market values and deteriorating prices for most commodity product lines.

The depression in housing construction continued to affect the Timber and Wood Products Group all year, although toward year-end the rate of U.S. housing starts increased slightly and lumber and plywood prices began to improve. The Group's consolidated losses for the year increased substantially from 1981.

Declining sales and decreasing profit margins on pulp, newsprint and business papers reduced the Pulp and Paper Group's operating earnings, although converted paper products—primarily tissue—enjoyed record earnings. Earnings from containers and packaging increased moderately, reflecting favorable results from specialty packaging and the proceeds of a container operation insurance settlement. The Distribution Group's wholesale paper and office products operations reacted to the decline in business activity with a fourth-quarter loss and a steep decline in operating earnings for the year. Because bonus payments for oil and natural gas exploration leases on Crown Zellerbach lands were lower than in previous years, Energy Group operating earnings also fell sharply.

As part of the Canadian transaction, the company agreed to sell Norsk Pacific Steamship Company, which was primarily involved in transporting newsprint from the Canadian company's British Columbia mill to West Coast ports. The company also agreed to sell a lumber and plywood facility in Louisiana and its half-interests in a California pulp mill and a Chilean paper operation.

In response to the economic climate, the company's capital investment expenditures were reduced from a projected $330 million to $305 million. The capital budget for 1983 is approximately $280 million.

Timber and Wood Products

(In millions of dollars)	1982	1981	1980
Sales	$437	$545	$600
Operating Earnings (Loss)	$(47)	$(14)	$ 39
% of Total Operating Earnings	(51)	(8)	21

Despite cost-cutting and production curtailments, the Timber and Wood Products Group's losses more than tripled from 1981 and sales were off 20 percent as U.S. housing starts fell to the lowest level since 1946. Three fourths of the increased loss represented the effect of the housing industry depression on Crown Zellerbach Canada Limited, while domestic operations accounted for the remainder.

New housing starts in the U.S. declined slightly in 1982 to 1.06 million, compared with 1.1 million in 1981 and 1.3 million in 1980. The rate of new housing starts improved slightly in the fourth quarter and lumber prices responded with modest improvement. The activity came too late to help 1982 earnings, however.

In the Pacific Northwest, log prices in export and domestic markets declined 13 percent on a year-to-year basis, and the volume of logs shipped was off 11 percent. Similarly, Pacific Northwest wood product prices decreased 10 percent, and shipments dropped 38 percent. The resulting operating losses were partially offset by cost savings from production curtailments and closures. Harvesting was reduced at the company's managed forests in Oregon and Washington. In the South, Crown's other major domestic timber and wood products operating area, both prices and volume of shipments were essentially unchanged from the previous year. In December, the company announced an agreement to sell its lumber and plywood manufacturing facility at Joyce, Louisiana, to Manville Forest Products Corporation.

Timber harvest for 1982 was 292 million cubic feet, compared with 304 million cubic feet in 1981. Lumber production was 628 million board feet, compared with 717 million in 1981, and plywood production was 421 million square feet, compared with 487 million in the prior year.

Pulp and Paper

(In millions of dollars)	1982	1981	1980
Sales	$1,230	$1,296	$1,239
Operating Earnings	$ 77	$ 107	$ 105
% of Total Operating Earnings	83	59	56

Since pulp and paper sales follow the trend of the general economy, they were depressed for most of 1982. Weak markets for market pulp and newsprint from Crown Zellerbach Canada and export pulp from the Fairhaven, California, joint venture mill accounted for the major share of the year-to-year decrease in consolidated operating earnings. Earnings from domestic pulp and paper operations trailed 1981 by only three percent as strong demand for tissue offset softness in other markets, particularly publication papers and newsprint.

After several years of rapid increases, the costs of fiber and chemicals used in pulp and paper making declined in 1982. Labor rate increases were partially offset by improved productivity and operating efficiencies. Energy costs were lowered by reductions in the use of purchased energy achieved through conservation and the use of alternative fuels.

The company selectively curtailed production in the second half-year in response to the generally weak markets. Total production of paper, containerboard and pulp for the year was 2.6 million tons, compared with 2.7 million tons in 1981.

The $425 million modernization of the Camas, Washington, mill, Crown's largest capital investment project, continued, with completion scheduled for the fall of 1984.

In June, Crown Zellerbach International sold its 50 percent interest in Laja Crown S.A. Papeles Especiales, a Chilean paper company, to its co-owner, Compania Manufacturera de Papeles y Cartones. The company also sold its half-interest in the Fairhaven export pulp mill to Simpson Paper Company. Pulping operations at Pulp Recycling Northeast Corporation in Moreau township, New York, were permanently closed.

Containers and Packaging

(In millions of dollars)	1982	1981	1980
Sales	$601	$607	$562
Operating Earnings (Loss)	$ 28	$ 22	$ (6)
% of Total Operating Earnings	30	12	(3)

Spurred by favorable results from specialty packaging and nonwoven fabrics, operating earnings of the Containers and Packaging Group increased moderately despite second-half losses in corrugated container operations.

Specialty packaging tends to be less affected by recession than most businesses because its principal market is the food industry. In 1982, film products volume rose 10 percent, while flexible packaging sales increased six percent, reflecting improved volume and prices. Earnings from nonwoven fabrics doubled due to increased volume from a new $22 million plant at Camas-Washougal, Washington, that tripled the company's capacity. The overall gains in packaging results were achieved in the face of higher expenditures for business development, research and development and expanding capacity, and higher costs for labor and raw materials.

By contrast, corrugated containers are used to ship finished goods to market, and their sales are paced to a great extent by general business activity. During 1982, this led to a 17 percent decrease in domestic sales, primarily due to a reduction in tonnage shipped. The company wrote down containerboard inventories to reflect falling market prices. These adverse factors were substantially offset by proceeds of $9.5 million from an insurance settlement, however.

Production was curtailed at Bogalusa, Louisiana, the company's main containerboard plant, and non-economic box plants at Memphis, Tennessee, Waukegan, Illinois, and Anaheim, California, were sold or closed.

Cost-cutting measures, including a 30 percent reduction in salaried positions and a 25 percent reduction in hourly employees, lowered the break-even level for container operations by nearly a third. Energy costs were lowered by $20 per ton at Bogalusa through fuel substitution, and the cost of secondary fiber to supply recycling operations declined.

Capital investments during the year included installation of an $18 million power co-generation facility at the Antioch, California, containerboard recycling mill. In addition to starting production at the new nonwoven fabrics plant in Washington, the Specialty Packaging and Chemicals Division, which includes plastic-based and laminated packaging materials, chemicals, nonwoven fabrics and inks, opened a new flexible packaging facility at Jackson, Tennessee, and added a state-of-the-art solvent-free adhesive laminator at the St. Louis flexible packaging plant. Specialty chemicals operations were augmented by additional capacity at the Bogalusa dimethyl sulfoxide (DMSO) production unit. The Ink Division made continued progress in low-solvent and water-based ink technology.

Distribution

(In millions of dollars)	1982	1981	1980
Sales	$991	$1,034	$954
Operating Earnings	$ 11	$ 29	$ 31
% of Total Operating Earnings	11	17	16

Distribution Group earnings fell off sharply as volume declined and trading margins were compressed by price pressures induced by the general business recession. Approximately a third of the year-to-year decline in consolidated operating earnings reflects the distribution operations of Crown Zellerbach Canada.

At the same time, the Group continued to make significant progress toward its long-term goal of maximum efficiency and productivity. Its principal unit, Zellerbach Paper Company, which operates throughout the western states, Alaska and Hawaii, further improved its service capability by installing an additional 60 computer terminals in customer locations. These systems provide customers with direct access to ZPCo's on-line order entry system to facilitate placing orders and determining product availability. The component of the Distribution Group serving the southern states, Virginia Paper Company, built new facilities in Shreveport, Louisiana, and Greensboro, North Carolina. The group's third major unit, Stationers Distributing Co., supplies office products dealers throughout the Sunbelt. The Distribution Group distributes products ranging from office supplies to furniture, printing papers, industrial papers, plastic packaging, personal service items and specialty products.

Energy

(In millions of dollars)	1982	1981	1980
Sales	$24	$24	$23
Operating Earnings	$25	$36	$18
% of Total Operating Earnings	27	20	10

The Energy Group's operating earnings declined by nearly a third in 1982 due to a decrease of $10 million in nonrecurring bonuses from oil and natural gas exploration leases on CZ lands.

Production of oil and gas equivalents from company-owned wells and CZ's share of the production of others amounted to 711,000 barrels in 1982, compared with 763,000 barrels in 1981. Income from leases and bonuses amounted to $8 million. Exploration activity on and around CZ lands also declined from 1981 levels. The amount invested in drilling—almost entirely by lease-holders on CZ lands or on drilling or producing units in which CZ had an interest—totaled $20 million in 1982, compared with $109 million in 1981. 1982 drilling totaled 171,000 feet in 18 wells, compared with 496,000 feet in 35 wells during the prior year.

Other

Other income, miscellaneous, net increased by $4 million in 1982, primarily because of interest income from temporary investment of borrowed funds. Interest expense reflected the issuance of $220 million in new long-term debt in the first half of 1982 and increased long-term bank loans by the Canadian subsidiary.

Selling and administrative costs were held to the same level as in 1981. Inflationary pressures were checked by salaried staff reductions and stringent cost controls.

Financial Review

Balance sheet comparisons are affected by the expected sale of Crown Zellerbach Canada Limited and Norsk Pacific Steamship Company. Their net assets were adjusted to the amount of the expected proceeds, and have been reclassified in the balance sheet as "Proceeds expected from sale of subsidiaries" and "Notes expected from sale of subsidiaries", according to the timing of receipt of payments under the contract of sale.

Working capital increased from $399 million to $444 million and the current ratio was 1.9 compared to 1.8 in 1981. The expected cash proceeds from the sale of the subsidiaries are $80 million greater than their working capital.

Capital spending for the year was $305 million, including $55 million for the Canadian subsidiary, down from $346 million in 1981.

(In millions of dollars)	1982	1981	% Change
Improvements to existing facilities	$ 56	$100	–44
New plant capacity and cost reduction	242	239	+1
Land and timberlands	7	7	–
Capital expenditures	$305	$346	–12

During 1982, the Corporation made two bank borrowings and a public bond offering in Swiss francs, amounting to a U.S. dollar equivalent of $120 million, repayable in from five to ten years. Interest costs ranged from 15.3 to 15.9 percent, including the cost of eliminating the risk of currency exchange fluctuation. The Corporation also borrowed $100 million from an institutional investor, due in 1990 with interest at 16.45 percent. In May, 1982 the Corporation issued 3.75 million shares of cumulative preferred stock for $75 million with an annual dividend of $3.05 per share.

Proceeds of these issues were used to retire bank and commercial paper notes and for the capital spending program.

Long-term debt at year-end was 35 percent of total capitalization compared to 30 percent at December 31, 1981.

December 31, (In millions of dollars)	1982	1981	% Change
Long-term debt	$ 611	$ 626	–2
Deferred income taxes	38	178	–79
Minority interest	–	47	–
Preferred stock	200	125	+60
Common stock equity	920	1,097	–16
Capitalization	$1,769	$2,073	–15

The Corporation expects to spend approximately $280 million for capital improvements in 1983, financed with internally generated funds, external financing and proceeds from the sale of subsidiaries. Temporary cash requirements will be covered by its $100 million in short-term bank credit lines and authorized commercial paper, $20 million of which was in use at December 31, 1982. An additional $200 million in long-term credit lines with domestic and foreign banks is available.

1981 Compared to 1980

Net income was $75 million or $2.47 per share from sales of $3.15 billion. In 1980 net income was $97 million or $3.46 per share from sales of $3.07 billion. In spite of the worldwide recession, sales increased moderately in all of Crown Zellerbach's lines of business except Timber and Wood Products. A forest products and paper industry strike for six weeks in 1981 lowered sales and earnings of the Canadian subsidiary.

Timber and Wood Products continued to feel the effect of a decline in housing starts, which dropped from 1.3 million in 1980 to 1.1 million. Foreign demand, particularly from Japan, declined 38 percent and prices declined substantially. This led to curtailments and shutdowns in many of the Group's operations.

The Corporation's 1981 timber harvest was 16 percent less than in 1980. Lumber production was down seven percent from 1980 and plywood production was 13 percent below the prior year's output.

Pulp and Paper Group sales increased five percent while operating earnings increased two percent. Increases in costs of energy and raw material, chemicals and fiber were offset by improved prices in 1981, but the strike in Canada negated these gains. Demand for sanitary papers was strong throughout 1981 but markets for unbleached coarse papers, some business papers and Canadian market pulp became soft in the second half.

Containers and Packaging earnings increased substantially on a moderate increase in sales. The decline in activity in corrugated container markets was offset by increased efficiency of the Bogalusa, Louisiana containerboard mill. Sales and profit margins in specialty packaging held up well throughout the year. 1980 results reflect start-up costs at Bogalusa and the closure of facilities in Oregon and California.

Distribution Group sales increased eight percent and exceeded $1 billion for the first time, but the Group reported a decline in profit for the first time in five years. Sales growth slowed from the pace of recent years and this factor, coupled with increased pressure on margins, caused earnings to decline.

Energy Group earnings doubled to $36 million in 1981 due to non-recurring bonuses from oil and natural gas exploration leases on CZ lands in Louisiana and Mississippi. Exploration activity on and around CZ lands declined from 1980 levels.

In 1981 other income, miscellaneous, net was $18 million, compared to $11 million in 1980. Gains on disposal of capital assets increased $11 million and foreign currency translation effects improved $5 million. Interest income decreased $10 million.

Interest expense remained level as higher interest costs on borrowings for construction were offset by an increase in interest capitalized from $12 million in 1980 to $30 million in 1981.

Unusual items, before income taxes, were income of $8.3 million in 1981 and $26.1 million in 1980.

STATEMENT OF MANAGEMENT RESPONSIBILITY

The consolidated financial statements and other financial information of Crown Zellerbach and Subsidiaries contained in this annual report to shareholders have been prepared, using generally accepted accounting principles, under the direction of management, which is responsible for the quality of the data and the evaluations and judgements required.

Management is responsible for the maintenance of the systems of internal accounting control and the review of their effectiveness. These internal control systems are designed to provide assurance that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that assets are safeguarded. Although there are inherent limitations in any system of internal control, management believes that its systems provide effective controls consistent with reasonable cost.

Through written communication of policies and procedures, careful selection and training of personnel, organizational arrangements that provide division of responsibility and a program of monitoring compliance by internal audits and follow-up, management augments the systems of internal control.

The Audit Committee of the Board of Directors is composed of outside (non-employee) directors. It is responsible for recommending, annually, the firm of outside accountants to be engaged as independent auditors, subject to the approval of the shareholders. The committee also reviews the annual financial statements of the Corporation and the report of the independent auditors thereon, and considers matters relating to internal controls and auditing procedures. The Audit Committee meets regularly with the independent auditors and the Corporation's internal auditors to discuss these matters. Both the independent auditors and the internal auditors have free and independent access to the Audit Committee.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
Crown Zellerbach
San Francisco, California

We have examined the consolidated balance sheets of Crown Zellerbach and Subsidiaries as of December 31, 1982 and 1981, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Crown Zellerbach and Subsidiaries at December 31, 1982 and 1981, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
San Francisco, California

January 24, 1983

STATEMENTS OF INCOME

(In millions of dollars, except per share amounts)	1982	1981	1980
Income			
Net sales	$2,947.4	$3,148.3	$3,066.6
Other income:			
From operations, net	10.1	23.9	3.2
Miscellaneous, net	21.6	17.5	11.2
	2,979.1	3,189.7	3,081.0
Expenses			
Cost of goods sold	2,585.8	2,709.3	2,615.0
Selling and administrative costs	351.7	350.9	327.2
Interest on debt	51.1	36.7	37.1
	2,988.6	3,096.9	2,979.3
Income (loss) before unusual items and income taxes	(9.5)	92.8	101.7
Unusual items			
Sale of subsidiaries	(44.9)	–	–
Sale and writedown of investments in affiliates	19.6	(7.9)	6.1
Provision for restructured operations	(80.8)	–	–
Cost of early retirement program	(28.1)	–	–
Exchange of debt for common stock	–	16.2	–
Involuntary conversion	–	–	20.0
	(134.2)	8.3	26.1
Income (loss) before income taxes	(143.7)	101.1	127.8
Federal, state and foreign income taxes	(31.5)	25.8	30.4
Net income (loss)	$ (112.2)	$ 75.3	$ 97.4
Net income (loss) per share of common stock	$ (4.86)	$ 2.47	$ 3.46

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

BALANCE SHEETS

December 31, (In millions of dollars)	1982	1981
ASSETS		
Current Assets		
Cash and short-term investments, at cost (approximates market)	$ 107.6	$ 60.0
Trade accounts receivable, net of allowances for losses (1982: $6.7; 1981: $7.5)	218.6	289.0
Other receivables	47.3	55.8
Inventories	312.8	445.9
Prepaid expenses	47.1	48.6
Proceeds expected from sale of subsidiaries	187.9	–
Total current assets	921.3	899.3
Properties, at cost		
Buildings, machinery and equipment	1,933.9	2,364.8
Less allowances for depreciation	864.2	970.4
	1,069.7	1,394.4
Land, timberlands and logging facilities, net of amortization and cost of timber harvested	215.1	258.9
Oil and gas properties, net of depletion and amortization	9.3	9.1
Total properties	1,294.1	1,662.4
Other Assets		
Notes expected from sale of subsidiaries	123.6	–
Investments in affiliates	5.6	20.6
Other investments (at cost) and receivables	17.1	12.8
Deferred charges	23.9	19.0
Total other assets	170.2	52.4
	$2,385.6	$2,614.1
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Commercial paper notes payable	$ 19.9	$ 53.8
Notes payable, banks	–	17.0
Accounts payable, trade	157.0	168.0
Accrued and deferred income taxes	44.3	19.8
Accrued payrolls	63.0	81.8
Other current liabilities	165.4	127.7
Long-term debt, installments due within one year	28.2	32.3
Total current liabilities	477.8	500.4
Other Liabilities		
Long-term debt	611.2	626.4
Deferred income taxes	37.6	177.7
Other	138.8	40.9
Total other liabilities	787.6	845.0
Minority Interest in Canadian Subsidiary	–	46.5
Shareholders' Equity		
Preferred stock	200.0	125.0
Common stock, $5 par value. Authorized 100 million shares, outstanding 1982 and 1981, 26.9 million shares	134.6	134.3
Other capital	91.5	93.9
Income retained in the business	694.1	869.0
Total shareholders' equity	1,120.2	1,222.2
	$2,385.6	$2,614.1

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In millions of dollars)	1982	1981	1980
Cash and short-term investments, January 1	$ 60.0	$ 58.0	$ 92.0
Financial resources were provided by			
Net income (loss)	(112.2)	75.3	97.4
Charges (credits) to income not affecting cash:			
Unusual items	134.2	(8.3)	(26.1)
Depreciation, amortization, depletion and cost of timber harvested	124.4	118.9	116.1
Net loss (gain) on disposition of properties	1.8	(11.0)	5.8
Provision for deferred income taxes	(34.7)	19.8	42.3
Internal funds generated	113.5	194.7	235.5
Proceeds expected from subsidiaries to be sold (including $69.3 million of intercompany debt)	311.5	–	–
Issuance of preferred stock, net of expenses	71.2	–	121.0
Issuance of common stock	1.3	33.2	5.8
Issuance of long-term debt	268.3	224.9	42.6
Increase in other liabilities	16.7	20.7	3.5
Proceeds from disposition of assets	47.5	21.1	40.9
Miscellaneous, net	.1	(3.9)	(17.4)
	830.1	490.7	431.9
Financial resources were used for			
Additions to properties	305.4	345.7	281.6
Retirement of long-term debt, in 1981 net of gain on exchange	163.8	69.2	93.6
Net increase in other working capital items	121.6	17.2	25.8
Notes expected from sale of subsidiaries	123.6	–	–
Dividends declared:			
On preferred stock	18.4	11.6	9.1
On common stock	44.3	59.6	57.4
Increase (decrease) in other investments and receivables	5.4	(14.6)	(1.6)
	782.5	488.7	465.9
Net increase (decrease) in cash and short-term investments	47.6	2.0	(34.0)
Cash and short-term investments, December 31	$107.6	$ 60.0	$ 58.0
Net increase (decrease) in other working capital items			
Accounts receivable	$ (38.6)	$ 22.8	$ 41.1
Inventories	(38.0)	12.2	37.1
Prepaid expenses	2.6	4.1	(2.3)
Proceeds expected from sale of subsidiaries	187.9	–	–
Notes payable	50.9	30.8	(61.7)
Accounts payable, trade	3.6	(19.6)	(10.8)
Accrued and deferred income taxes	4.1	(17.2)	48.1
Accrued payrolls and other current liabilities	(50.9)	(15.9)	(25.7)
	$121.6	$ 17.2	$ 25.8

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

STATEMENT OF SHAREHOLDERS' EQUITY

(In millions of dollars, except per share amounts)	Preferred stock	Common stock	Other capital	Income retained in the business
Balances, January 1, 1980	$ –	$127.1	$65.7	$834.0
Proceeds from sale of $4.625 cumulative convertible preferred stock	125.0	–	(4.0)	–
Net income	–	–	–	97.4
Cash dividends declared:				
On $4.625 cumulative convertible preferred stock, $3.65 per share	–	–	–	(9.1)
On common stock, $2.25 per share	–	–	–	(57.4)
Other	–	.8	5.7	–
Balances, December 31, 1980	125.0	127.9	67.4	864.9
Issuance of 1.2 million common shares in exchange for debentures	–	6.0	24.8	–
Net income	–	–	–	75.3
Cash dividends declared:				
On $4.625 cumulative convertible preferred stock	–	–	–	(11.6)
On common stock, $2.30 per share	–	–	–	(59.6)
Other	–	.4	1.7	–
Balances, December 31, 1981	125.0	134.3	93.9	869.0
Proceeds from sale of $3.05 cumulative preferred stock	75.0	–	(3.8)	–
Net income (loss)	–	–	–	(112.2)
Cash dividends declared:				
On $4.625 cumulative convertible preferred stock	–	–	–	(11.6)
On $3.05 cumulative preferred stock, $1.83 per share	–	–	–	(6.8)
On common stock, $1.65 per share	–	–	–	(44.3)
Other	–	.3	1.4	–
Balances, December 31, 1982	$200.0	$134.6	$91.5	$694.1

The accompanying notes are an integral part of this financial statement.

Summary of Significant Accounting Policies

Consolidation
The consolidated financial statements include the accounts of Crown Zellerbach Corporation and subsidiaries.

Inventories
Inventories are valued at the lower of cost or market. Cost elements included in inventory are materials, transportation, direct labor and manufacturing overhead. Cost is generally determined by standard cost, which approximates a moving average cost, for all items except the cost of domestic distribution inventories, which is determined by the last-in, first-out method.

Properties
Depreciation is reported for financial statement purposes on a straight-line or units-of-production basis over the useful lives of depreciable assets.

Timberland reforestation costs are capitalized. Timberland carrying costs are charged against income. Cost of timber harvested is based generally on the book value of specific tracts from which the timber is removed. Amortization of logging facilities costs is based on the estimated recoverable timber to be removed over the facilities.

Oil and Gas Activities
The successful efforts method of accounting is followed for oil and gas activities.

Taxes
Investment and energy tax credits are reflected in income using the flow-through method.

Pension Plans
Pension plan costs include amortization of prior service costs under the Corporation's pension plans over periods ranging from 15 to 30 years. The Corporation's policy is to fund pension costs accrued.

Net Income (Loss) per Share of Common Stock
Net income (loss) per share is calculated by dividing net income (loss) attributable to common stock (net income (loss) after deducting dividends on preferred stock) by the weighted average number of shares of common stock outstanding during the period.

Unusual Items

Sale of subsidiaries
The Corporation has entered into an agreement to sell its investment in Crown Zellerbach Canada Limited (CZCL), representing 84 percent of the outstanding common shares, and its 100 percent investment in Norsk Pacific Steamship Company, to subsidiaries of Fletcher Challenge Limited formed for the purpose of purchasing such companies, for $242 million, consisting of $167 million in cash to be paid at closing and a $75 million, 14 percent subordinated note due in 1988. Intercompany debt of $69.3 million will be restructured with receipt by the Corporation of $19.5 million in cash at closing and a 12¾ percent subordinated note due in 1989 for the balance. Completion of the transaction is subject to certain conditions, including Canadian governmental approvals.

The Corporation has agreed to indemnify CZCL in the event that sales of CZCL's newsprint in the United States fall below certain specified annual quantities. A subsidiary of the Corporation will enter into a transitional marketing agreement to sell in the United States newsprint manufactured by CZCL.

The total after-tax loss recorded, $76.2 million, or $2.83 per share, includes $19.3 million in previously deferred foreign currency translation losses, a $31 million estimated loss related to currently anticipated shortfalls in future newsprint sales, and $31.3 million in income taxes, reflecting undistributed earnings of foreign subsidiaries not previously taxed in the United States.

The results of operations of CZCL and Norsk are included in the Statements of Income under the appropriate revenue and expense captions and are summarized as follows:

(In millions of U.S. dollars)	1982	1981	1980
Income	$535	$556	$567
Expenses	(566)	(523)	(515)
Unusual item	–	–	35
Income (loss) before income taxes	(31)	33	87
Provision for income taxes	(18)	15	24
Net income (loss)	$ (13)	$ 18	$ 63

Combined balance sheets of CZCL and Norsk are summarized as follows:

December 31, (In millions of U.S. dollars)	1982	1981
Assets		
Current assets	$156	$165
Properties	448	452
Other assets	1	2
	$605	$619
Liabilities and shareholders' equity		
Current liabilities	$ 72	$ 73
Long-term debt	191	131
Deferred income taxes	66	101
Minority interest	41	47
Shareholders' equity	235	267
	$605	$619

At December 31, 1982 the net assets of the subsidiaries being sold were adjusted to the amount of the expected proceeds, and have been reclassified in the balance sheet as "Proceeds expected from sale of subsidiaries" and "Notes expected from sale of subsidiaries" according to the timing of receipt of payments under the contract of sale.

Sale and writedown of investments in affiliates
In 1982, the Corporation sold its 50 percent interests in Laja Crown S.A. Papeles Especiales and in a joint venture which owned and operated the Fairhaven, California pulp mill. The gain on the sales, net of income taxes, was $11.1 million, or $.41 per share, and includes the Corporation's share in the earnings of the affiliates until the dates of sale, which amounted to $1.3 million in 1982, $3.0 million in 1981 and $3.0 million in 1980.

In 1980, Elk River Timber Company, Ltd., a Canadian corporation in which CZCL held a one-third stock interest, sold its principal assets. The portion of the gain on sale attributable on distribution to CZCL was a nontaxable dividend for Canadian income tax purposes. The gain, $35.0 million, was reported net of minority interest of $4.2 million.

Also in 1980, after a review of the competitive cost and productivity prospects for its 50 percent owned affiliate in The Netherlands, Van Gelder Papier, the Corporation concluded that the likelihood of future economic return was such that its investment in Van Gelder had become permanently impaired. To reflect this impairment, the Corporation charged to income $31.9 million, representing its total equity investment at December 31, 1979. The writedown, and the Corporation's share in the losses of Van Gelder, are shown as unusual items and include a foreign exchange translation gain of $2.6 million. No income tax benefit was recognized.

During the fourth quarter of 1981, a preferred stock investment of $10.9 million in an affiliate of Van Gelder was written off, because of the remote likelihood of economic return on the investment. The writeoff is shown before income tax effect.

Provision for restructured operations
The Corporation has adopted plans to dispose of certain assets in the Timber and Wood Products and Pulp and Paper segments of its business, which resulted in charges to income of $44.8 million after taxes, or $1.67 per share. These charges resulted from writing down the cost of previously purchased timber cutting rights and certain assets and making provisions for disposal, closure costs and losses until disposal.

Cost of early retirement program
During 1982, the Corporation offered employees who had been members of its Retirement Plan for five years or more and were between ages 55 and 65 an option to elect early retirement under the Plan without reduction of benefits. Until they reach age 65, employees accepting this option also receive a supplemental monthly payment, and their health and life insurance benefits are continued. The net present value of the estimated cost of this program, after taxes, was $15.2 million, or $.56 per share.

Exchange of debt for common stock
In October, 1981, the Corporation exchanged 1.2 million shares of its common stock for $30.1 million of its 8⅞ percent sinking fund debentures and $16.7 million of its 9¼ percent sinking fund debentures. The debentures were acquired to satisfy future sinking fund requirements. The exchange resulted in a nontaxable gain of $16.2 million.

Involuntary conversion
In 1980, a chemical recovery boiler at the Corporation's Bogalusa, Louisiana containerboard mill was destroyed by fire. The boiler was insured for its replacement cost, which was estimated to be $20 million in excess of its carrying value.

Inventories

Inventories are as follows:

December 31, (In millions of dollars)	1982	1981
Finished products	$203.0	$265.4
In process	23.5	26.6
Raw materials	57.2	116.2
Supplies	29.1	37.7
	$312.8	$445.9

The current cost of inventories accounted for by the last-in, first-out method exceeds carrying value by $31.1 million and $30.2 million at December 31, 1982 and 1981, respectively.

Properties

The major classes of property, plant and equipment are as follows:

December 31, (In millions of dollars)	1982	1981
Buildings, machinery and equipment:		
Buildings and improvements	$ 340.0	$ 433.3
Machinery and equipment	1,393.2	1,667.1
Construction in progress	200.7	264.4
	$1,933.9	$2,364.8
Other properties, net of allowances for amortization and cost of timber harvested:		
Land	$ 19.8	$ 24.6
Timberlands and cutting rights	173.5	202.9
Logging facilities	18.6	27.7
Other	3.2	3.7
	$ 215.1	$ 258.9
Oil and gas properties, net of allowances for amortization and depletion	$ 9.3	$ 9.1

Interest expense for 1982, 1981, and 1980 is net of $32.3 million, $30.3 million and $12.1 million, respectively, capitalized as part of the historical cost of acquiring certain properties (excepting timberlands) which require a period of time to prepare them for their intended use.

Lease Commitments

Premises and equipment are leased under agreements which provide in some instances for renewal privileges at reduced annual rentals or for purchase at option prices established in the lease agreements. Certain of these agreements are capital leases.

The composition of capital leases included in properties is:

December 31, (In millions of dollars)	1982	1981
Buildings and improvements	$38.4	$45.6
Machinery and equipment	14.5	14.5
	52.9	60.1
Less allowances for amortization	40.6	42.7
	$12.3	$17.4

Future minimum rentals under leases in effect at December 31, 1982 are:

(In millions of dollars)	Capital leases	Operating leases
1983	$ 5.5	$ 7.1
1984	2.5	6.5
1985	2.1	5.0
1986	1.5	3.4
1987	1.4	2.8
Later periods	5.2	13.2
Total minimum payments required	18.2	$38.0
Less executory expenses included above	.1	
	18.1	
Less amount representing interest	3.7	
Present value of net minimum capital lease payments	14.4	
Long-term debt, installments due within one year	4.5	
	$ 9.9	

Rental expense under operating leases was $16.4 million in 1982, $16.1 million in 1981, and $16.2 million in 1980.

In addition to the above leases, pollution control and industrial revenue bonds are issued by political subdivisions in which the Corporation operates and the proceeds used to construct facilities and equipment, which are leased or sold to the Corporation. Included as long-term debt in the accompanying balance sheet in addition to the above amounts is $26.7 million in capital leases which underlie revenue bond issues.

Income Taxes

The components of income (loss) before income taxes were taxed under the following jurisdictions:

(In millions of dollars)	1982	1981	1980
United States	$(109.0)	$ 86.3	$ 77.4
Foreign	(34.7)	14.8	50.4
	$(143.7)	$101.1	$127.8

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate follows:

	1982	1981	1980
Statutory tax rate	(46.0)%	46.0%	46.0%
Sale of subsidiaries	36.8	–	–
Nontaxable gain on early retirement of debt	–	(7.4)	–
Share of operating (income) loss and write-down of investments in affiliates recorded net of income taxes	–	(1.4)	9.6
Investment and energy tax credits	(12.1)	(14.5)	(15.5)
Foreign income taxes	.4	1.2	(12.0)
All other, net	(1.0)	1.6	(4.3)
Effective tax rate	(21.9)%	25.5%	23.8%

The income tax provision (benefit) and the deferred income taxes related to specific timing differences consisted of:

(In millions of dollars)	1982	1981	1980
Current:			
U.S. federal	$ (.8)	$ .5	$(22.6)
State	.8	.9	.9
Foreign	3.2	4.4	10.1
Total current	3.2	5.8	(11.6)
Deferred:			
U.S. federal–			
NOL carryforward	(12.7)	–	–
Investment tax credits	(19.7)	(13.9)	–
Foreign tax credits	(8.4)	(1.3)	–
Restructured operations	(36.0)	–	–
Sale of subsidiaries and affiliates	40.1	–	–
Retirement program	(12.9)	–	–
Depreciation	24.8	21.1	18.1
Investment writeoff	–	(5.0)	–
Interest capitalized	9.2	9.3	5.6
Log inventories	2.5	–	(3.9)
Foreign exchange	(1.2)	–	6.3
Other, net	(1.3)	1.5	.4
Total U.S. federal	(15.6)	11.7	26.5
Foreign–			
Depreciation	(11.6)	3.3	15.2
Interest capitalized	5.4	4.8	–
NOL carryforward	(8.1)	–	–
Other, net	(4.8)	.2	.3
Total foreign	(19.1)	8.3	15.5
Total deferred	(34.7)	$20.0	42.0
	$(31.5)	$25.8	$30.4

Deferred income taxes result from timing differences in the recognition of income and expense for financial reporting and tax purposes.

In 1982, the Corporation and its Canadian subsidiary had net operating losses (NOL) for tax purposes which were recorded as tax benefits of $12.7 million in U.S. taxes and $8.1 million in foreign taxes. The costs related to restructured operations and the retirement program recorded for book purposes in 1982 will be reported for tax purposes in future years. The tax benefits from the NOL, restructured operations and retirement program and the carryforward of investment and foreign tax credits will be used to offset future tax liabilities and have been offset against deferred income taxes.

Investment and energy tax credits included in the U.S. federal provision were $19.7 million in 1982, $14.6 million in 1981, and $19.8 million in 1980.

Credit Agreements

At December 31, 1982, the Corporation has short-term credit lines with domestic and foreign banks totaling $100 million and long-term bank credit facilities totaling $200 million which expire in 1984 and 1985.

These agreements require commitment fees or compensating balances in accordance with standard banking practice.

Long-Term Debt

Long-term debt due after one year at December 31, 1982 consists of:

(In millions of dollars)	
Sinking fund debentures – $8\frac{7}{8}\%$, payable \$4.9 in 1989, \$5.0 annually from 1990-1999, balance at maturity in 2000	\$ 64.9
Sinking fund debentures – $9\frac{1}{4}\%$, payable \$.1 in 1988, \$3.4 annually from 1989-2004, balance at maturity in 2005	58.3
Unsecured notes – $8\frac{1}{8}\%$, payable \$6.5 annually from 1984-1994, \$9.5 from 1995-1997	100.0
Unsecured notes – 4.8%, payable \$6.0 annually through 1989, balance at maturity in 1990	40.0
Unsecured notes – 16.45%, payable \$20.0 in 1988, \$40.0 annually in 1989 and 1990	100.0
Mortgage bonds – $8\frac{1}{8}\%$, payable annually in varying amounts through 1994	29.4
Unsecured notes – $8\frac{1}{4}\%$, payable in 1984	6.0
Mortgage note – 10.0%, payable \$.5 annually through 1989	2.5
Unsecured notes, 50 million Swiss francs – $7\frac{3}{8}\%$, payable in 1988	26.7
Unsecured notes, 75 million Swiss francs – $7\frac{1}{4}\%$, payable in 1987	42.8
Bonds, 100 million Swiss francs – $6\frac{3}{4}\%$, payable in 1992	53.0
Pollution control and industrial development revenue bonds – payable annually in varying amounts through 2009	65.4
Capitalized lease obligations	9.9
Other	12.3
	\$611.2

Including the cost of eliminating currency exchange risk, the effective interest costs of the Swiss franc notes and bonds are 15.4 percent, 15.9 percent and 15.3 percent respectively.

Pollution control and industrial development revenue bonds comprise 34 separate issues of local governmental units with interest rates ranging from 5.1 percent to 13.0 percent.

Annual maturities of long-term debt during the next five years are as follows:

(In millions of dollars)	
1983	\$28.2
1984	33.4
1985	24.3
1986	18.5
1987	60.6

Dividends which can be declared from income retained in the business are restricted by agreements related to long-term debt. There is \$182 million of income retained in the business available for dividends at December 31, 1982.

Properties of the Corporation with a book value of \$90 million are collateral for the mortgage bonds and notes.

Preferred Stock

Authorized preferred stock is 10 million shares. In May, 1982 the Corporation issued 3.75 million shares of \$3.05 cumulative preferred stock. Preferred stock outstanding is as follows:

December 31, (In millions of dollars)	1982	1981
\$4.625 cumulative convertible preferred stock, outstanding 1982 and 1981, 2.5 million shares	\$125.0	\$125.0
\$3.05 cumulative preferred stock, outstanding 1982, 3.75 million shares	75.0	–
	\$200.0	\$125.0

The \$4.625 cumulative preferred stock is convertible into common stock at \$47.25 per share. There are 2.6 million shares of common stock reserved for its conversion.

The \$3.05 cumulative preferred stock is redeemable at the option of the Corporation at premiums declining from \$3.05 per share at December 31, 1982 to zero in 1997. If, during any consecutive twelve-month period, the Corporation sells assets for which it receives consideration aggregating not less than \$100 million, it may apply those proceeds to full or partial redemption of the \$3.05 cumulative preferred stock at premiums declining from \$1.52 per share at December 31, 1982 to zero in 1997.

Stock Option Plans

Under the Corporation's nonqualified and incentive stock option plans, options are granted for periods not exceeding ten years. They become exercisable after waiting periods of from two to four years, are exercisable only while the optionee is an employee and terminate when the optionee ceases to be an employee, except in cases of death and certain retirements.

At December 31, 1982, there are 1.7 million shares of authorized and unissued common stock reserved for options.

Activity in outstanding options was as follows:

(In millions of shares)	Number of shares	Average price per share
Balance, December 31, 1981	.9	\$38.48
Granted	.6	22.63
Cancelled	(.3)	40.64
Balance, December 31, 1982	1.2	\$29.85

Options for .6 million shares are exercisable.

Stock appreciation rights (SARs) may be granted in conjunction with an option grant. They offer the grantee the alternative, instead of exercising the option, of receiving an amount equivalent to the difference between the option price and the market value of the shares at the date of exercise. This amount may be paid in cash or in shares at the discretion of the Corporation. At December 31, 1982, SARs with respect to options for 31,800 shares, at prices of from \$28.00 to \$41.88, are fully exercisable.

Pension Plans

The Corporation contributed to several pension plans, including joint trusteed plans, covering substantially all of its eligible employees, including certain employees in foreign countries. Annual pension expenses, including amortization of prior service costs, were \$33.8 million in 1982, \$30.4 million in 1981, and \$46.5 million in 1980.

A summary of the present value of plan benefits and assets available for benefits is as follows:

December 31, (In millions of dollars)	1982	1981
Actuarial present value:		
Vested benefits	$480	$479
Nonvested benefits	45	47
Fair value of assets available for benefits	515	515
Discount rate	8½%	8½%

In 1981 the Corporation changed from the entry age normal actuarial method to the projected unit credit method for determining pension expense, and increased the assumed rate of return on plan investments.

Business Segment Information

The Corporation's business segments are: Timber and Wood Products, Pulp and Paper, Containers and Packaging, Distribution, and Energy. A summary by business segments of sales, operating earnings, identifiable assets, depreciation, amortization, depletion and cost of timber harvested, and capital expenditures for 1982, 1981 and 1980 follows.

Sales and transfers to other segments of the business are made both at cost and at an approximate market price. Operating earnings not allocated to segments include the Corporation's share in the earnings and losses of affiliates, certain general and administrative expenses, interest income and expense and other non-operating revenue and expense items which cannot be associated with specific business segments. Identifiable assets for 1982 include the gross assets of the subsidiaries being sold in the appropriate business segments, while their liabilities are included in "Eliminations and other". Assets not allocated consist principally of cash and short-term investments and investments in affiliates.

(In millions of dollars)	Timber and Wood Products	Pulp and Paper	Containers and Packaging	Distribution	Energy	Eliminations and Other	Total
1982							
Sales and transfers							
To unaffiliated customers	$353.8	$1,025.4	$556.8	$ 987.0	$24.4	$ –	$2,947.4
To other segments	83.2	204.9	44.3	3.5	–	(335.9)	–
	$437.0	$1,230.3	$601.1	$ 990.5	$24.4	$(335.9)	$2,947.4
Operating earnings	$(47.2)	$ 77.0	$ 27.6	$ 10.6	$24.7	$(102.2)	$ (9.5)
Assets	$531.1	$1,119.6	$537.5	$ 256.0	$18.5	$ (77.1)	$2,385.6
Depreciation, amortization, depletion and cost of timber harvested	$ 37.4	$ 51.4	$ 26.2	$ 4.0	$ 1.7	$ 3.7	$ 124.4
Capital expenditures	$ 47.1	$ 180.0	$ 63.5	$ 8.9	$ 3.4	$ 2.5	$ 305.4
1981							
Sales and transfers							
To unaffiliated customers	$429.5	$1,100.2	$564.8	$1,029.7	$24.1	$ –	$3,148.3
To other segments	115.8	195.5	42.2	4.0	–	(357.5)	–
	$545.3	$1,295.7	$607.0	$1,033.7	$24.1	$(357.5)	$3,148.3
Operating earnings	$(14.2)	$ 106.8	$ 22.0	$ 29.3	$36.3	$ (87.4)	$ 92.8
Assets	$565.6	$1,080.2	$529.9	$ 260.2	$16.4	$ 161.8	$2,614.1
Depreciation, amortization, depletion and cost of timber harvested	$ 40.8	$ 45.4	$ 24.1	$ 3.3	$ 1.5	$ 3.8	$ 118.9
Capital expenditures	$ 53.0	$ 215.6	$ 59.0	$ 8.0	$ 2.8	$ 7.3	$ 345.7
1980							
Sales and transfers							
To unaffiliated customers	$522.7	$1,047.8	$522.8	$ 950.0	$23.3	$ –	$3,066.6
To other segments	77.1	191.1	38.7	3.9	–	(310.8)	–
	$599.8	$1,238.9	$561.5	$ 953.9	$23.3	$(310.8)	$3,066.6
Operating earnings	$ 39.4	$ 104.8	$ (6.3)	$ 30.6	$17.8	$ (84.6)	$ 101.7
Assets	$557.2	$ 927.0	$461.0	$ 235.4	$15.0	$ 177.1	$2,372.7
Depreciation, amortization, depletion and cost of timber harvested	$ 45.8	$ 42.0	$ 20.8	$ 3.0	$ 1.2	$ 3.3	$ 116.1
Capital expenditures	$ 57.3	$ 127.0	$ 78.1	$ 8.8	$ 3.2	$ 7.2	$ 281.6

Foreign Operations

Foreign operations consolidated in the financial statements are primarily in Canada. Foreign sales, operating earnings, and identifiable assets are included in the business segment information presented above and were as follows:

(In millions of dollars)	1982	1981	1980
Sales:			
To unaffiliated customers	$457.9	$511.5	$514.1
Intercompany	104.3	88.1	97.3
	$562.2	$599.6	$611.4
Operating earnings	$ (8.8)	$ 36.1	$ 70.3
Identifiable assets	$598.2	$617.9	$501.6

Foreign operating earnings are before certain nonoperating income and expense items which cannot be associated with specific business segments.

Effective January 1, 1982, the Corporation adopted Statement of Financial Accounting Standards No. 52 for the translation of foreign currency amounts. Prior year financial statements have not been restated. Net translation losses were $20.7 million in 1982, including $19.3 million recognized on the sale of the Corporation's investment in Crown Zellerbach Canada. Foreign currency translation activity was a gain of $.3 million in 1981 and a loss of $5.0 million in 1980.

The minority interest in loss or income of Crown Zellerbach Canada was a credit of $2.2 million in 1982 and a charge of $2.7 million in 1981 and $4.5 million in 1980.

Impact of Inflation on Financial Data

The financial statements presented elsewhere in this report were prepared in accordance with generally accepted accounting principles. The amounts reported are stated at historical cost and do not reflect the effects of increasing prices and changes in the purchasing power of the dollar. Because of the worldwide inflation rate in recent years, there is a concern in the financial community that historical cost financial statements do not reflect today's economic reality. In recognition of this concern, the Financial Accounting Standards Board (FASB) has prescribed an experimental method of adjustment on a supplemental basis, called current cost. Disclosure of the Corporation's results under this method is presented on the opposite page.

The current cost method revalues selected assets (inventories and properties) and related expenses (cost of goods sold and depreciation, amortization, depletion and cost of timber harvested) based on specific price changes for resources actually owned and used by the Corporation. The objective of this method is to value the Corporation's resources, and their consumption, at the current cost of replacement rather than at the historical cost actually expended to acquire them.

The current cost of buildings, machinery and equipment reflects replacement of these facilities in kind, without recognition of probable new technology which could affect productivity and/or operating expenses. It has been determined by applying appropriate indexes to historical cost amounts. Depreciation as adjusted for current cost is based on the same asset lives and depreciation methods used in the historical cost financial statements. The current cost of timberlands is based on changes in the U.S. and Canadian consumer price indices since their acquisition, in accordance with FASB provisions. Cost of timber harvested, as adjusted, reflects the same method used in the historical cost financial statements. The current cost of inventories represents recent purchase prices and manufacturing costs.

Unrealized Purchasing Power Gain

A monetary asset represents money or a claim to receive money without reference to future prices of specific goods or services. Similarly, a monetary liability is an obligation to pay a sum of money the amount of which is fixed or determinable without reference to future prices. Since the Corporation's monetary liabilities exceed its monetary assets, an important hedge against inflation is provided as this net monetary liability position will be paid in dollars which have a lower purchasing power than the dollars originally received in return for the obligations. Under FASB provisions, this important factor is not included in the determination of net income. It is shown under the caption "Unrealized purchasing power gain on net monetary liabilities".

Holding Gains

During periods of inflation, assets become more valuable with the passage of time. In historical cost accounting, operating income is presented without considering cost changes. The current cost disclosures show holding gains resulting from such cost changes separately from net income, recognizing that it is not practicable to realize them without disposing of the asset and its related productive capacity, and paying income taxes on the gains.

The amount disclosed as "Increase in current cost of inventories and properties" is the difference between the effects of general inflation and the effects of changes in specific prices during the year.

Effects of General Inflation

The effects of general inflation are measured by the U.S. Consumer Price Index (CPI).

Comments

Net income as computed by the current cost method is significantly lower than net income reported in the historical cost financial statements. This decrease is due to an increase in the cost of goods sold, reflecting both higher inventory and property costs. The Corporation's businesses are predominantly capital intensive, and its properties have been put into service at various dates during its extended history. Adjusting costs from those dates to 1982 results in a significant increase, which is reflected in the cost of properties and in depreciation, amortization, depletion and cost of timber harvested.

Although net income is reduced under the current cost method, purchasing power gains on net monetary liabilities and holding gains on inventories and properties, which are not included in net income, offset the impact of inflation on the Corporation's financial results.

Income tax expense is not adjusted for the increases in costs determined under the current cost method because such increases are not deductible for income tax purposes. This demonstrates the inadequacy of the current tax laws, which generally ignore the effects of inflation. Deductions based on historical cost rather than replacement cost do not permit adequate accumulation of funds to replace worn-out or obsolete facilities.

Although the supplementary financial information is determined in accordance with the computational techniques prescribed by the FASB, it is limited only to certain assets and expenses and is not intended to reflect all of the effects of inflation or the other economic factors that affect the operation of the Corporation's businesses. Moreover, development of the inflation data involves the use of judgment, assumptions and estimates. Therefore, in accordance with the experimental nature of the statement, the data should only be used with careful consideration of the underlying concepts used in its preparation.

Effects of Changing Prices—1982

(In millions of dollars)	Historical	Current cost
Income statement		
Net sales and other income	$2,979	$2,979
Cost of goods sold	2,585	2,653
Selling and administrative costs	352	357
Interest on debt	51	51
	2,988	3,061
Income (loss) before unusual items and income taxes	(9)	(82)
Unusual items	(134)	(134)
Income (loss) before income taxes	(143)	(216)
Federal, state and foreign income taxes	(31)	(31)
Net income (loss)	$ (112)	$ (185)
Depreciation, amortization, depletion and cost of timber harvested	$ 124	$ 224
Unrealized purchasing power gain on net monetary liabilities		$ 36
Increase in current cost of inventories and properties:		
From general inflation		$ 132
From changes in specific prices		43
Excess of increases from general inflation over changes in specific prices		$ 89
Current cost at December 31:		
Inventories		$ 370
Properties		2,170

Five Year Summary of Effects of Changing Prices

(In millions of dollars, except per share amounts)	1982	1981	1980	1979	1978
Net sales:					
Historical	$2,947	$3,148	$3,067	$2,806	$2,458
Adjusted for general inflation	2,947	3,346	3,598	3,737	3,642
Net income (loss):					
Historical	(112)	75	97	134	
Adjusted for specific price changes	(185)	(75)	(85)	31	
Net income (loss) per share:					
Historical	(4.86)	2.47	3.46	5.24	
Adjusted for specific price changes	(7.56)	(3.38)	(3.76)	1.21	
Cash dividends declared per common share:					
Historical	1.65	2.30	2.25	2.05	1.90
Adjusted for general inflation	1.65	2.44	2.64	2.73	2.81
Net assets at December 31:					
Historical	1,120	1,222	1,185	1,027	
Adjusted for specific price changes	2,268	2,436	2,493	2,442	
Unrealized purchasing power gain on net monetary liabilities	36	74	100	104	
Current cost of inventories and properties-excess of increases from general inflation over changes in specific prices	89	9	24	96	
Market price per common share at December 31:					
Historical	29 3/8	29	48 1/2	43 1/2	31
Adjusted for general inflation	29 1/8	29 3/4	54 1/4	54 3/4	44 1/4
Average level of the Consumer Price Index (1967 = 100)	289.5	272.4	246.8	217.4	195.4

Oil and Gas Activities

In accordance with the requirements of the Financial Accounting Standards Board and the Securities and Exchange Commission, this section provides supplemental information on the Corporation's oil and gas producing activities.

Information about the quantities and values of the Corporation's oil and gas reserves was developed by Ryder Scott Company, independent petroleum engineers. The information relates only to proved reserves, which are defined as the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions. The presumption of the continuance of existing economic conditions is also inherent in estimating future revenues and future operating and development costs, which are assumed to remain stable at current levels.

Estimated quantities of proved reserves, all of which are located in the United States, and changes in the reserves are as follows:

(Oil in thousands of barrels, gas in millions of cubic feet)	Oil	Gas
1980		
Discoveries and other additions	259	628
Production	(576)	(1,130)
1981		
Balances, January 1	3,750	3,709
Revisions of previous estimates	(75)	1,710
Extensions, discoveries and other additions	130	883
Production	(578)	(1,107)
Balances, December 31	3,227	5,195
1982		
Revisions of previous estimates	391	(206)
Extensions, discoveries and other additions	458	218
Production	(573)	(829)
Balances, December 31	3,503	4,378

The independent petroleum engineers did not make an estimate of reserves, or of future revenues, at January 1, 1980.

Capitalized costs related to oil and gas properties are as follows:

December 31, (In millions of dollars)	1982	1981
Machinery and equipment	$10.1	$ 8.0
Less allowance for depreciation	3.0	2.4
	7.1	5.6
Oil and gas properties:		
Proved	6.0	5.8
Unproved	3.3	3.3
	9.3	9.1
	$16.4	$14.7

Costs incurred in oil and gas activities were:

(In millions of dollars)	1982	1981	1980
Exploration	$ .3	$ .6	$ .3
Development	2.6	2.3	2.6
	$2.9	$2.9	$2.9

Net income from oil and gas producing activities was:

(In millions of dollars)	1982	1981	1980
Revenues	$24.4	$24.1	$23.3
Expenses:			
Production (including production and windfall profits taxes)	5.8	6.5	5.6
Exploration	.1	.2	.3
Depreciation, amortization and depletion	1.6	1.4	1.2
General and administrative	.8	.7	.7
	8.3	8.8	7.8
Income before income taxes	16.1	15.3	15.5
Income taxes	6.9	6.4	6.6
Net income	$ 9.2	$ 8.9	$ 8.9

Estimated future net cash flows from the production of oil and gas, based on December 31 prices and costs, are:

December 31, (In millions of dollars)	1982	1981
Revenues	$132.6	$136.8
Production and development costs including production and windfall profits taxes	(27.4)	(20.7)
Income taxes	(47.1)	(51.8)
Net cash flows	58.1	64.3
Discount at 10 percent	18.2	20.8
Discounted estimated future net cash flows	$ 39.9	$ 43.5

Changes in estimated future net cash flows were:

(In millions of dollars)	1982	1981
Balance, January 1	$43.5	$42.8
Sales price and production cost changes	(10.7)	2.4
Sales of oil and gas	(18.6)	(17.6)
Revisions of previous estimates	6.2	3.9
Extensions, discoveries and other additions	8.5	5.2
Previously estimated development costs incurred	1.3	1.5
Accretion of discount	4.3	4.3
Net change in income taxes	2.7	(.9)
Other	2.7	1.9
Balance, December 31	$39.9	$43.5

Quarterly Information

(In millions of dollars, except per share amounts)	Sales	Gross profit on sales	Net income (loss)	Net income (loss) per share
1982				
First quarter	$ 725.0	$101.6	$ 5.6	$ .10
Second quarter	759.4	104.5	21.2 [1]	.64
Third quarter	749.2	94.7	7.4	.06
Fourth quarter	713.8	60.8	(146.4) [2]	(5.66)
	$2,947.4	$361.6	$(112.2)	$(4.86)
1981				
First quarter	$ 765.3	$112.0	$ 18.4	$ .61
Second quarter	823.6	128.0	20.8	.70
Third quarter	790.4	92.2	6.9	.15
Fourth quarter	769.0	106.8	29.2 [3]	1.01
	$3,148.3	$439.0	$ 75.3	$ 2.47

1 Includes unusual items: Sale of investment in affiliate, net of income taxes, $5.9.

2 Includes unusual items, net of income taxes: Sale of subsidiaries, $(76.2); sale of investment in affiliate, $5.2; provision for restructured operations, $(44.8); cost of early retirement program, $(15.2).

3 Includes unusual items: Exchange of debt for common stock, $16.2; writedown of investment in affiliate, net of income taxes, $(5.9).

Per Share Information

	1982	1981
Dividends Paid Per Share on Common Stock		
First quarter	$ .57½	$ .57½
Second quarter	.57½	.57½
Third quarter	.57½	.57½
Fourth quarter	.25	.57½
	$1.97½	$2.30
Common Stock Market Price Range (High and low)		
First quarter	$29 - $22½	$52 - $42
Second quarter	24 - 17¼	53⅜ - 38⅜
Third quarter	21½ - 15¼	41⅝ - 27⅛
Fourth quarter	30 - 19	32⅛ - 25

The principal market for the common stock is the New York Stock Exchange.

Five Year Summary of Selected Financial Data

	1982	1981	1980	1979	1978
Income (In millions of dollars)					
Net sales	$2,947.4	$3,148.3	$3,066.6	$2,806.1	$2,457.7
Income (loss) before unusual items and income taxes	(9.5)	92.8	101.7	222.7	147.3
Unusual items	(134.2)	8.3	26.1	(11.6)	13.9
Federal, state and foreign income taxes	(31.5)	25.8	30.4	77.6	49.1
Net income (loss)	$ (112.2)	$ 75.3	$ 97.4	$ 133.5	$ 112.1
Per share of common stock					
Net income (loss)	$ (4.86)	$ 2.47	$ 3.46	$ 5.24	$ 4.39
Common dividends declared	1.65	2.30	2.25	2.05	1.90
Common dividends paid	1.97½	2.30	2.20	2.00	1.90
Common stock equity	34.19	40.86	41.43	40.39	37.22
Common stock market price range:					
High	30	53⅜	62¾	44	38
Low	15¼	25	33½	30⅞	29
Financial position (In millions of dollars)					
Assets					
Current assets	$ 921.3	$ 899.3	$ 858.2	$ 816.3	$ 729.1
Properties, net	1,294.1	1,662.4	1,438.6	1,264.6	1,151.7
Other assets	170.2	52.4	75.9	79.7	82.9
Total assets	$2,385.6	$2,614.1	$2,372.7	$2,160.6	$1,963.7
Liabilities and Shareholders' Equity					
Current liabilities	$ 477.8	$ 500.4	$ 479.3	$ 421.1	$ 316.0
Long-term debt	611.2	626.4	486.1	545.2	559.2
Deferred income taxes and other liabilities	176.4	218.6	178.1	132.3	101.0
Minority interest	–	46.5	44.0	35.2	28.8
Preferred stock	200.0	125.0	125.0	–	13.0
Common stock equity	920.2	1,097.2	1,060.2	1,026.8	945.7
Total liabilities and shareholders' equity	$2,385.6	$2,614.1	$2,372.7	$2,160.6	$1,963.7

	1982	1981	1980	1979	1978
Other statistics (In millions of dollars)					
Internal funds generated	$113.5	$194.7	$235.5	$265.7	$221.6
Additions to properties	305.4	345.7	281.6	215.5	232.6
Depreciation, amortization, depletion and cost of timber harvested	124.4	118.9	116.1	110.2	104.9
Employment costs, excluding social security taxes	762.2	779.2	763.4	737.0	661.9
Retirement plan costs	33.8	30.4	46.5	61.2	60.6
All taxes	65.0	127.4	122.5	162.7	123.9
Ratio of current assets to current liabilities	1.9 to 1	1.8 to 1	1.8 to 1	1.9 to 1	2.3 to 1
Days sales in accounts receivable	30	31	30	31	31
Days inventories on hand	58	60	61	63	55
Debt as a percent of total capitalization	35%	30%	26%	32%	34%
Production					
Paper and containerboard (In thousands of tons)					
Newsprint	409	414	460	418	403
Other printing papers	418	405	392	352	372
Business and converting papers	542	558	567	565	517
Tissue and sanitary papers	313	330	321	333	261
Containerboard	595	671	637	694	669
	2,277	2,378	2,377	2,362	2,222
Pulp for sale (In thousands of tons)	279	301	290	267	245
Total paper, containerboard and pulp	2,556	2,679	2,667	2,629	2,467
Lumber (In millions of board feet)	628	717	770	1,059	1,039
Plywood (In millions of square feet)	421	487	561	614	624
Logs harvested (In millions of cubic feet)	292	304	360	402	397
Oil and gas equivalents (In thousands of barrels)	711	763	764	645	634
Natural resources					
Managed forest system (In thousands of acres)					
Owned in fee:					
United States	1,692	1,705	1,705	1,739	1,703
Canada	322	322	322	313	313
	2,014	2,027	2,027	2,052	2,016
Controlled:					
United States	313	370	375	381	373
Canada	984	985	981	1,017	1,010
	1,297	1,355	1,356	1,398	1,383
Total acres	3,311	3,382	3,383	3,450	3,399
Oil and gas reserves					
Oil (In thousands of barrels)	3,503	3,227	3,750	Data not available	
Gas (In millions of cubic feet)	4,378	5,195	3,709	Data not available	

DIRECTORS & OFFICERS

Directors

W.T. Creson[1]
Chairman of the Board
President and
Chief Executive Officer

W.J. Bowen[3,4,5]
Chairman and
Chief Executive Officer
Transco Companies, Inc., Houston
An interstate gas pipeline and
petroleum exploration firm

H.C. Cornuelle[3,4,5]
President, H.C. Cornuelle Inc.,
Trustee, The Estate of James
Campbell, Honolulu
A private estate

M.S. Denman[1]
Executive Vice President and
Chief Administrative Officer

M.F. Granville[2,4,5]
Retired Chairman of the Board
and Chief Executive Officer
Texaco Inc., White Plains, N.Y.

R.M. Hendrickson[2,4,5]
Senior Executive Officer
The Equitable Life Assurance
Society of the U.S., New York City
A life insurance firm

L.W. Lane, Jr.[2,4]
Chairman of the Board
Lane Publishing Co. and
Publisher, *Sunset* Magazine
Menlo Park, CA

E.A. Mitchell[1,5]
Executive Vice President and
Senior Operating Officer
President and Chief Executive Officer
Crown Zellerbach International, Inc.

M.C. Mumford[3,4]
Retired Chairman of the Board
Lever Brothers Company
New York City

R.W. Roth[3,4,5]
President and Chief Executive Officer
Jantzen Inc., Portland, OR
A sportswear manufacturer

Dr. Dorothy M. Simon[2,4]
Vice President, Research
AVCO Corporation, Greenwich, CT
A diversified financial, insurance and
manufacturing firm

W.J. Zellerbach[1]
Senior Vice President

Corporate Officers

William T. Creson
Chairman of the Board
President and
Chief Executive Officer

Ernest A. Mitchell
Executive Vice President and
Senior Operating Officer

Scott B. Weldon
Executive Vice President and
Senior Operating Officer

MacDonald S. Denman
Executive Vice President and
Chief Administrative Officer

George B. James
Executive Vice President and
Chief Financial Officer

Harry L. Fledderman
Senior Vice President
General Counsel and
Secretary

Dwight D. Taylor
Senior Vice President

William J. Zellerbach
Senior Vice President

Edgar H. Grubb
Vice President and
Controller

Michael G. McCafferty
Vice President and
Treasurer

Sol Mosher
Vice President, Federal Affairs

Crown Zellerbach International

Ernest A. Mitchell
President and
Chief Executive Officer

Wayne F. Edwards
Vice President

Lee J. Ross
Vice President

1 Executive Committee
2 Audit Committee
3 Organization and Compensation Committee
4 Nominating Committee
5 Finance Committee

Operating Group Officers and Executives

Timber and Wood Products

William R. Corbin
Senior Vice President

Richard L. Carlson
Vice President

Pulp and Paper

James A. Toney
Senior Vice President

Paul T. Gallagher
Vice President

Ernest S. Leopold
Vice President

Harry A. Barber

James A. Beardsley

Joseph R. Neil

George R. Shally

William L. Thirtyacre

Corrugated Containers

Allan G. Resnick
Senior Vice President

Gary R. Gift

Specialty Packaging and Chemicals

Robert M. Collier
Senior Vice President

Harold W. Reed
Vice President

James L. Heilig

Dale A. Meyer

Distribution

Frederick J. Stabbert
Senior Vice President

Philip L. Erickson

Norman H. Wesley

Walter G. Woodbury

Energy

H. Eugene Turner

Staff Executives

Dr. John S. Barton
Pioneering Research
and Development

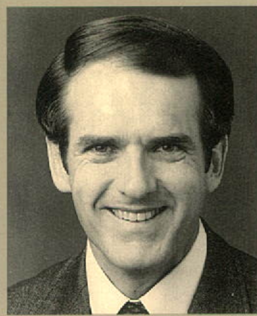
Dr. Erich A. Helfert
Corporate Planning

Printed on CZ Capistrano Web Gloss #80

SENIOR MANAGEMENT

W.T. Creson - Age 53
Chairman of the Board, President, Chief Executive Officer - 17 mos.
Crown Zellerbach - 6 yrs.

R.M. Collier - Age 53
Senior Vice President - 9 mos.
Crown Zellerbach - 4 yrs.



W.R. Corbin - Age 42
Senior Vice President - 2 mos.
Crown Zellerbach - 8 yrs.

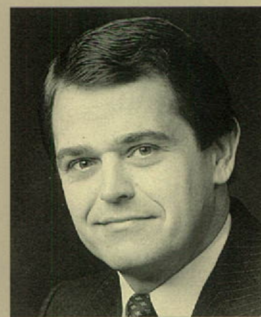
M.S. Denman - Age 58
Executive Vice President, Chief Administrative Officer - 11 yrs.
Crown Zellerbach - 28 yrs.

H.L. Fledderman - Age 56
Senior Vice President, General Counsel, Secretary - 9 yrs.
Crown Zellerbach - 20 yrs.

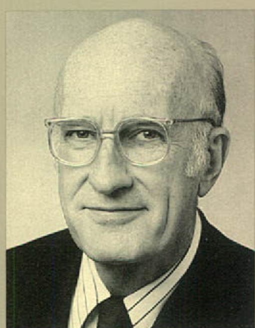
G.B. James - Age 45
Executive Vice President, Chief Financial Officer - 1 yr.
Crown Zellerbach - 1 yr.

E.A. Mitchell - Age 60
Executive Vice President, Senior Operating Officer - 13 yrs.
Crown Zellerbach - 33 yrs.

A.G. Resnick - Age 48
Senior Vice President - 17 mos.
Crown Zellerbach - 23 yrs.



F.J. Stabbert - Age 39
Senior Vice President - 1 mo.
Crown Zellerbach - 13 yrs.



D.D. Taylor - Age 62
Senior Vice President - 9 yrs.
Crown Zellerbach - 9 yrs.

J.A. Toney - Age 53
Senior Vice President - 3 yrs.
Crown Zellerbach - 24 yrs.

S.B. Weldon - Age 55
Executive Vice President, Senior Operating Officer - 9 mos.
Crown Zellerbach - 4½ yrs.

W.J. Zellerbach - Age 62
Senior Vice President - 11 yrs.
Crown Zellerbach - 37 yrs.

Executive Offices

One Bush Street
San Francisco, California 94104

10-K Available

The Crown Zellerbach Corporation Report on Form 10-K for the fiscal year ended December 31, 1982, filed with the Securities and Exchange Commission, is available without charge to shareholders on written request to:

Crown Zellerbach
Corporate Communications
One Bush Street
San Francisco, California 94104

Transfer Agent

The Bank of California, N.A.
San Francisco and New York City

Auditors

Coopers & Lybrand
Certified Public Accountants
San Francisco

Requests for additional copies should be directed to:

Crown Zellerbach
Corporate Communications
One Bush Street
San Francisco, California 94104

Systematic Investment

A Systematic Investment service offers two convenient and cost-free plans for holders of CZ common or preferred stock to increase their investments in the company. For a free brochure explaining Systematic Investment write to:

CZ Systematic Investment Service
The Bank of California
P.O. Box 45005
San Francisco, California 94145

J. L. Baldwin
Director of Investor Relations

CrownZellerbach
One Bush Street, San Francisco, CA 94104