



Financial Highlights

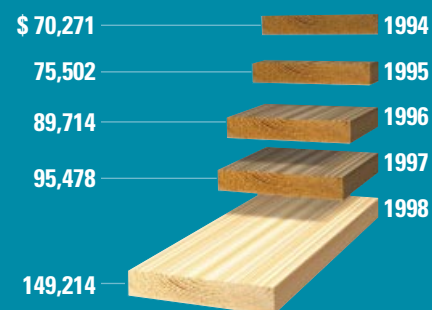
(In thousands, except per share and statistics data.)

	1998	1997	% change
CONSOLIDATED STATEMENTS OF EARNINGS DATA			
Net sales	\$1,238,907	\$1,066,300	+ 16.2
Gross profit	149,214	95,478	+ 56.3
Earnings before income taxes	43,034	25,982	+ 65.6
Net earnings	26,419	16,957	+ 55.8
Dividends per share	\$0.070	\$0.065	+ 7.7
Earnings per basic share	\$1.28	\$0.93	+ 37.6
Weighted average shares outstanding with common stock equivalents	20,613	18,234	+ 13.0
CONSOLIDATED BALANCE SHEET DATA			
Working capital	\$ 99,859	\$ 89,783	+ 11.2
Total assets	420,070	229,383	+ 83.1
Long-term debt and capital leases	141,880	49,977	+183.9
Shareholders' equity	191,583	115,898	+ 65.3
STATISTICS			
Gross profit as a percentage of net sales	12.0%	9.0%	n/a
Net earnings as a percentage of net sales	2.1%	1.6%	n/a
Return on beginning equity	22.8%	16.8%	n/a
Current ratio	2.22	2.32	n/a
Debt to equity ratio	.74	.43	n/a
Book value per common share	\$9.29	\$6.65	+ 39.7

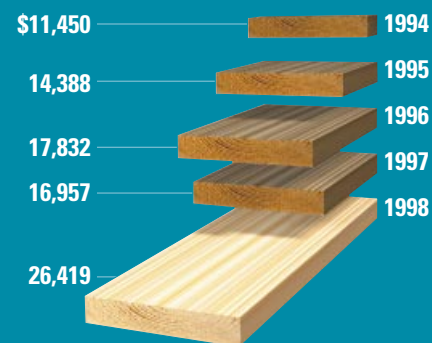
Net Sales (In thousands)



Gross Profit (In thousands)



Net Earnings (In thousands)



Earnings Per Basic Share



Dear Shareholders,

Build it!

That's what we promised when we introduced our Performance 2002 strategic plan last year.

In 1998, that's exactly what we did.

To our shareholders:

We built Universal Forest Products into the nation's fastest growing manufacturer, distributor, and marketer of engineered wood products.

We built our sales by more than \$170 million, our gross profits and net earnings by more than 55 percent each — all record levels.

We increased our percentage of value-added products, which drives our margins, from 29 percent of sales to 39 percent of sales — almost half-way to our goal of 50 percent by 2002.

We even made the 1998 *Forbes* Platinum List of America's top companies in our industry — based on growth and profitability.

In the first year of our Performance 2002 five-year initiative, we've positioned Universal to take advantage of the tremendous growth potential that exists in the markets we serve.

PERFORMANCE 2002 GOALS:

- Achieve \$2 billion in annual sales;
- Become the #1 supplier to the four markets we serve: D-I-Y home center, manufactured housing, site-built construction, and industrial and agricultural;
- Increase our percentage of manufactured value-added products to 50 percent of total sales;
- Increase net margins by a minimum of 50 percent;
- Consistently earn a return on investment greater than our cost of capital.



Our Building Strategy.

At Universal, "building" means not only being the construction industry's #1 supplier, it means building a company that is flexible, profitable, and focused on growth. One that's less dependent on fluctuating lumber prices, and more driven by innovation and creativity.

Increasing our gross margins is a critical component of our Performance 2002 goals. To increase those margins, we've implemented a strategy designed to change our product mix and drive down costs:

- Acquiring companies that manufacture value-added engineered wood products

for the site-built and manufactured housing markets;

- Expanding our product offering and market share in value-added D-I-Y and industrial products;
- Improving our manufacturing efficiency through process engineering.

Highlighting our performance during 1998 was our acquisition of five top suppliers of engineered wood products to the site-built construction market. Together, these companies have annual sales of over \$200 million. These acquisitions helped us expand our nationwide supply network to meet the changing needs of the rapidly consolidating site-built construction industry. A year ago we didn't even supply the site-built construction market. Today, we're one of the nation's larger suppliers of engineered wood products.

We also completed the acquisition of two U.S. companies that supply unique wood packaging to the industrial market, and a Mexican company that manufactures mouldings used in the site-built construction, manufactured housing, and D-I-Y markets.

These acquisitions contribute value-added products and capacity, with a very competitive cost structure. These acquisitions also provided us with some terrific new management talent. Combined

with our existing management team, these individuals have done an outstanding job integrating the recently acquired companies. With these additions, we now have the management team and organization necessary to drive our business.

In addition to acquiring new companies, we expanded internally, adding manufacturing and distribution capacity with five new facilities.

To keep pace with increased demand for our engineered wood products, we relocated our leased Carrollton, Texas operation to a newly purchased facility in Arlington, Texas. We opened new lumber remanufacturing operations in Hope, Arkansas, and Lerma, Mexico to support the growth of our D-I-Y home center, manufactured housing, and industrial markets.

As part of our ongoing efforts to integrate product lines and create synergy throughout our newly acquired operations, we are adding pre-assembled wall panels to our recently acquired Shoffner Industries' existing roof and floor truss product line by opening new wall panel operations in Hohenwald, Tennessee and Liberty, North Carolina.

All of these activities are part of our strategy to aggressively pursue the #1

**Our
commitment
to our
customers,
employees
and
shareholders
remains to
promise
the best.
And then
deliver
more.**



Peter F. Secchia



William G. Currie

position in each and every market we serve.

Our Performance 2002 goals are aggressive and ambitious. During 1998, we made tremendous progress toward meeting those goals.

Our outstanding performance during 1998 — even in the face of declining lumber prices — proves that our Performance 2002 strategies are right on target.

What's Next?

During 1999, and beyond, we intend to continue building a company that is financially sound and strategically solid. A company that provides its customers,

employees, and shareholders with outstanding value.

We will continue the manufacturing efficiency initiatives and asset management programs that improved our profits and provided a strong return on investment.

We will increase our capital spending on facilities, technology, and new products that will provide strong returns.

And we will continue to seek and develop

the best people in our industry.

We are extremely proud of what the company and its employees have achieved during 1998.

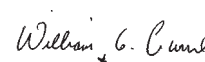
Our commitment to our customers, employees and shareholders remains to promise

the best. And then deliver more.

Sincerely,



Peter F. Secchia,
Chairman of the Board



William G. Currie,
President and Chief
Executive Officer

Do-It-Yourself Home Center

The \$145 billion D-I-Y home center market is predicted to experience four-to-five percent annual growth through 2002. We expect to do even better, with a projected compound annual growth rate of 15

**Deck
it.**

percent. That's impressive potential for our decking, fencing, and other retail wood products.

Part of that growth will come from consolidation within the D-I-Y home center market — our largest. Major national home center chains are favored to dominate the market as they seek to gain market share and efficiency through acquisitions.

In addition, 75 percent of the 118 million housing units in existence today are more than 20 years old. These aging homes are driving the market for value-added D-I-Y products.

The unprecedented growth in new housing starts over the past eight years has also contributed to D-I-Y market growth. Over a million new housing units are being built each year, and homeowners spend an average of \$5,000 on improvements to newly built homes within the first two years.



The Opportunity Is There. So Are We.

Universal Forest Products is the nation's leading manufacturer, distributor, and marketer of value-added and commodity lumber products to the D-I-Y market. These products include framing and pressure treated lumber, fencing, decking, deck accessories, lattice, and engineered wood products. With over 1,900 customers, and approximately 5,000 retail locations nationwide, our strength in this market uniquely positions us to take advantage of the greatest potential in



U.S. history for D-I-Y products.

We earned our #1 position in the D-I-Y home center market by offering our customers:

- A complete line of innovative, high-quality, value-added products;
- The expertise and manufacturing capacity to develop and produce emerging engineered wood products;

- Creative merchandising programs;
- 24-hour-a-day, 7-day-a-week customer service.

We have an aggressive strategy to make the most of the tremendous potential in this market.

- Expand our capacity through acquisitions of existing facilities in geographically important areas;
- Developing new value-added products that can be manufactured in existing operations, or added to current product lines;
- Leverage new and existing management to create the most talented, experienced management team in the industry.



The D-I-Y market not only provides incredible opportunities for top-line and bottom-line growth, it contributes greatly to our value-added product mix. What's more, it tends to be counter-cyclical to the construction industry, doing well in bad times, and even better in good times.



**As the
#1 supplier
to the
D-I-Y home
center market,
we're
uniquely
positioned
for growth.**

Manufactured Housing

Ten years ago, manufactured homes represented just one in every seven homes built. Today, it's one in every four. This growth in popularity is a direct result of manufactured housing's improved quality,



All these trends drive opportunity in one direction:

Universal Forest Products.

Only Universal Can Make It Happen.

As the only national company serving the manufactured housing market, we have more than 43 years of experience working with the industry's leading manufacturers. These long-standing customer relationships, combined with our reputation for superior engineering and product quality, cost control, and customer service, all contribute

to increase sales to manufactured housing;

- Continue our aggressive pursuit of improved manufacturing efficiency to lower costs and improve profits.

Our national presence in engineered wood products positions us well to capture market share as the manufactured housing market consolidates. In addition, our recently formed Mexican joint venture, Pinelli-Universal, enhances our product line for these customers.

Our continuing efforts in process engineering will also provide us with greater production efficiency and contribute to our growth and margin goals.

Assemble it.

enhanced features, and continuing affordability. Manufactured housing has also gained added strength due to the availability of conventional mortgage financing in recent years.

The industry is experiencing its share of consolidation, driven by a desire to reduce costs, gain efficiencies, and increase market share. This consolidation will likely concentrate the industry's growth with fewer major national companies.

Manufactured housing pioneered the use of engineered wood products as a way to improve quality and lower cost, so today's manufactured home builders continuously look for innovative ways to further improve their production efficiency. Emerging concepts, such as our OPEN JOIST 2000™ product, and lower cost millwork and mouldings, are likely to gain rapid, widespread acceptance.



to our growth potential.

But we intend to do more than simply grow with the market. We intend to:

- Use our advantage as a national supplier to increase our market share as the industry consolidates;
- Leverage our market knowledge and nationwide strength in value-added, engineered wood products





**We are the
only national
company
serving the
manufactured
housing
market, and
currently provide
65 percent of
the industry's
roof trusses.**

Site-built Construction

Our entry into the site-built construction market has been among the more dramatic events in Universal's history. In just one year, we've become the leading supplier of engineered wood products

to housing's largest segment. Three key trends are driving this

market's incredible potential:

- First, we're experiencing the longest sustained housing boom in the nation's history, with 1.6 million units built in 1998 alone;
- Second, the 10-year projected growth rate of engineered wood products in site-built construction outstrips the projected growth rate for housing starts by more than 10 times, exceeding seven percent annually;
- Third, consolidation in the site-built construction market clearly favors large, multi-tract builders.

The projected growth of engineered wood products — roof trusses, floor trusses, wall panels and I-joists — is based on the increasing interest by large tract builders in methods that improve quality, consistency, and efficiency, while reducing cost. Because engineered wood products are manufactured to exact specifications and



shipped to the job site just as they're needed, they provide a level

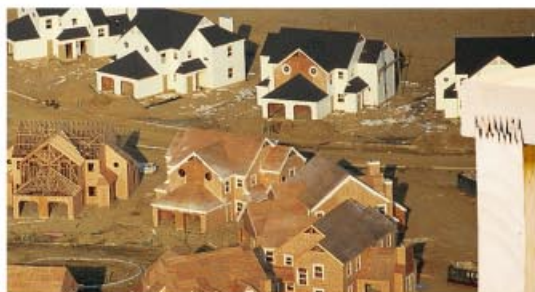
of consistency and quality that simply isn't available in traditional "stick-built" construction. Plus, they significantly reduce waste, on-site theft, and the time and labor needed to frame a house. All told, engineered wood products can save a builder as much as 16 percent on framing costs.

All this points to an incredible growth opportunity for a national supplier.

We intend to be that supplier.

Now That We're The Leader, Here's How We Intend To Grow.

Our strategy for the site-built construction market centered on becoming



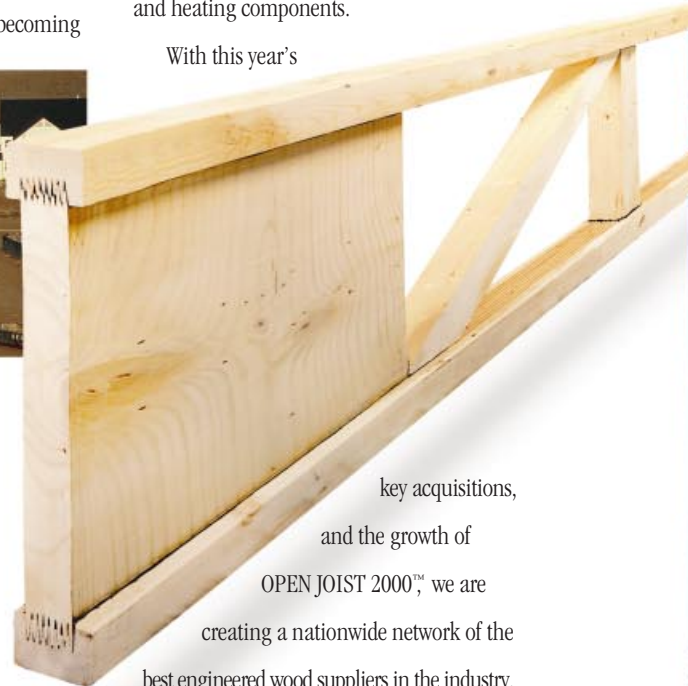
a one-stop resource for engineered wood products. To do so, we needed a nationwide distribution network that offered a full range of innovative engineered products.

In 1998, we became the largest supplier of engineered roof and floor trusses by acquiring the nation's premier manufacturers:

- *Consolidated Building Components*, 1998 sales: \$26 million;
- *Structural Lumber Products*, 1998 sales: \$31 million;
- *Schoffner Industries*, 1998 sales: \$100 million;
- *Advanced Component Systems*, 1998 sales: \$54 million;
- Majority interest in *Nascor, Inc.*, 1998 sales: \$13 million.

We also increased sales of a revolutionary new floor joist, OPEN JOIST 2000™. This proprietary product, manufactured through a licensing agreement, features an "open web" design that reduces weight, uses no plates for assembly, and importantly, allows for easier installation of plumbing, electrical and heating components.

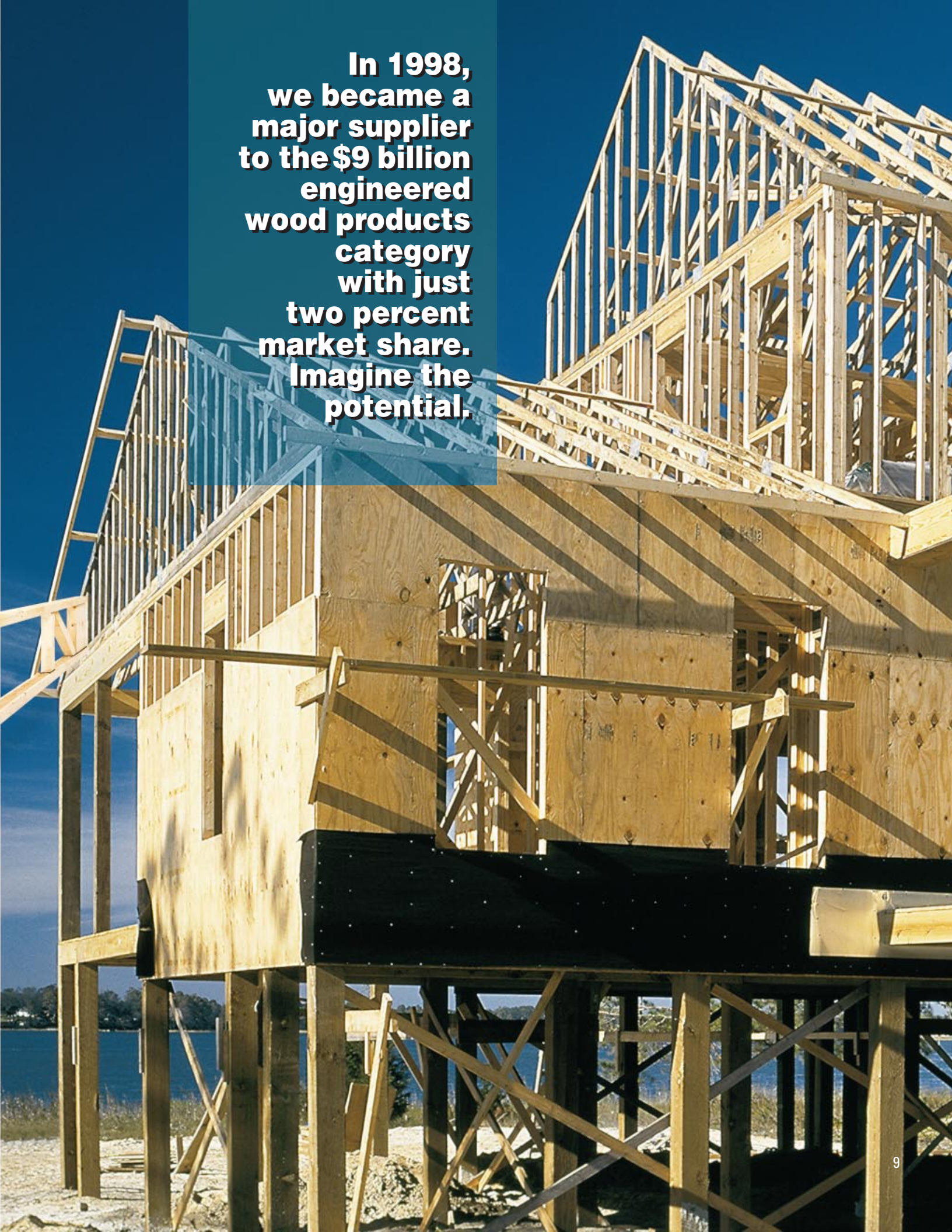
With this year's



key acquisitions, and the growth of OPEN JOIST 2000™, we are creating a nationwide network of the best engineered wood suppliers in the industry. Those acquisitions were the driving force behind the growth of our value-added product sales this past year.

Frame
it.

**In 1998,
we became a
major supplier
to the \$9 billion
engineered
wood products
category
with just
two percent
market share.
Imagine the
potential.**



Industrial and Agricultural

The growth of worldwide trade, combined with increasing environmental concerns over non-degradable packaging, has created an incredible opportunity for Universal Forest Products:

**Crate
it.**

wood packaging. Not just boxes mind you, but custom designed, built-to-order packaging for products such as automobile windshields, lawn tractors, engine blocks, even vegetables and flowers.

While it's tough to quantify the size of this highly fragmented market, we know from experience that it offers significant potential.

Not only are the applications nearly limitless, but we already possess the purchasing expertise, design and manufacturing capacity, and the nationwide presence to develop them.

We anticipate that our sales growth to this market will exceed 12 percent annually through 2002.



Market Niche.

We already manufacture and market a wide range of value-added wood packaging, such as crates and remanufactured lumber components. Because we design and produce these products using our existing facilities, doing so represents an extremely efficient use of capital, and generates margins eclipsed only by our engineered wood products.



To take advantage of this opportunity we plan to:

- Acquire key companies in key niche markets;
- Grow internal sales from existing plants by 10 percent annually;
- Develop a dedicated industrial/agricultural sales staff;

Our Plan For Growing This Unique

- Develop or acquire innovative new value-added packaging products.

During 1998, for example, Universal acquired *Atlantic General Packaging*, a specialty packaging manufacturer with a proprietary packaging and storage technology for the agricultural market called Pack 'n Rack. We also acquired *Industrial Lumber Company*, a supplier of components for industrial packaging, and opened a lumber remanufacturing facility in Lerma, Mexico. These acquisitions, and our ongoing strategy of developing key geographic markets, is an important part of our top and bottom line Performance 2002 goals.



**To our
competitors,
they're
just boxes.
To us,
they're
solutions.
That makes
all the
difference
in the
world.**





Building The Future.

What did we build in the past year? A lot.

The creativity, energy, and commitment we applied to our Performance 2002 goals during 1998 helped us make substantial progress toward meeting them.

We continued to build Universal Forest Products into an even more powerful manufacturer, distributor, and marketer of value-added wood products.

And we built Universal Forest Products into a company with the strength, leverage, and focus to build shareholder value in the years to come.



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