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TEMPLE-INLAND INC.

SYMBOLS OF QUALITY AND SERVICE



ANNUAL 1987 REPORT

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ABOUT OUR COMPANY

Temple-Inland is a holding company with major interests in paper, packaging, building products, mortgage banking and insurance.

The Company's principal subsidiaries include: Inland Container Corporation (containerboard and corrugated packaging); Temple-Eastex Incorporated (bleached paperboard and building materials); Lumbermen's Investment Corporation (mortgage banking, land development and real estate); Great American Reserve Insurance Company and National Fidelity Life Insurance Company (life and health insurance).

In 1987, Inland Container produced 1,874,000 tons of containerboard (linerboard and corrugating medium), ranking it fifth among all containerboard producers in the United States. Corrugated box shipments totaled 1,416,000 tons, approximately 7% of the domestic market, and ranked Inland among the top five of more than 800 corrugated producers in the United States.

The Temple-Eastex mill at Evadale, Texas produced 474,000 tons of bleached paperboard and 99,000 tons of pulp in 1987. It is one of the largest bleached paperboard mills in the U.S.

Although the Company is not a major national producer of any single building material, it does produce a wide range, including lumber, plywood, particleboard, gypsum wallboard, fiberboard, oriented strandboard, rigid foam products and decorative wall paneling.

Temple-Inland is a major landowner with more than 1.3 million acres of timberland in East Texas and Louisiana and about 400,000 acres in Georgia and Alabama.

Lumbermen's Investment Corporation services over $3 billion of mortgage loans, primarily residential, and is involved in land development and real estate, primarily in the Austin and San Antonio, Texas areas.

The combined insurance companies have approximately $8 billion of insurance in force and realized about $200 million of premium income in 1987.

Temple-Inland is based in Diboll, Texas. Its common stock is traded on the New York and Pacific Stock Exchanges under the Ticker Symbol TIN.

The cover of this annual report is printed on 115# Texcover®, produced at our bleached paper mill in Evadale, Texas.

Cover: the logos on the cover are those of Inland Container Corporation and Temple-Eastex Incorporated, Temple-Inland's two manufacturing subsidiaries. These companies, as well as our mortgage banking and insurance companies (above), are dedicated to providing quality products and services to their customers.

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Financial Highlights

(in millions, except per share data)

	1987	1986	Percent Increase (Decrease)
Net Sales	$1,602.7	$1,295.8	24 %
Operating Income	$ 236.5	$ 118.2	100 %
Net Income	$ 141.4	$ 80.8	75 %
Shareholders' Equity	$ 927.5	$ 928.9	— %
Earnings Per Share	$ 4.69	$ 2.64	78 %
Book Value Per Share	$ 33.52	$ 30.61	10 %
Dividends Per Share	$ .69	$ .58	19 %
Average Shares Outstanding	30.2	30.6	(1)%
Common Shares Outstanding at Year End	27.7	30.3	(9)%

Selected Business Segment Data

(in millions)

	1987	1986	Percent Increase (Decrease)
Net Sales			
Container and containerboard	$964.2	$721.7	34 %
Pulp and paperboard	$292.5	$264.9	10 %
Building products	$322.8	$281.5	15 %
Operating Income			
Container and containerboard	$150.8	$ 38.8	289 %
Pulp and paperboard	$ 53.4	$ 29.4	82 %
Building products	$ 36.5	$ 35.9	2 %
Financial services*	$ 7.6	$ 33.0	(77)%

*Pre-tax earnings of unconsolidated financial services subsidiaries.

1987

60% **Container and Containerboard**

22% **Pulp and Paperboard**

15% **Building Products**

3% **Financial Services**



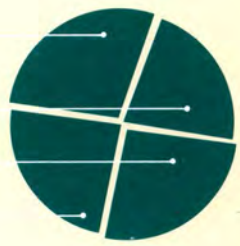
1986

28% **Container and Containerboard**

22% **Pulp and Paperboard**

26% **Building Products**

24% **Financial Services**



Combined operating earnings for Temple-Inland Inc. in 1987 and 1986 totaled $236.5 million and $118.2 million respectively. These charts show the percentage contributed by each of the Company's four operating groups.

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To Our Shareholders

Strong markets for paper and some building products, along with contributions from expanded production capacity, allowed Temple-Inland to post record sales and earnings in 1987.

Earnings per share of $4.69 increased 78% over last year. Net sales were $1.6 billion, up 24% from 1986.

Each manufacturing group turned in a solid performance in 1987. Container and containerboard earnings of $150.8 million more than doubled its previous best year, and the bleached paperboard group's earnings of $53.4 million were just shy of a record. Building products earned $36.5 million, up slightly from last year, while financial services income of $7.6 million was down sharply from 1986. The operations section of this report includes a complete financial review of each segment of the Company.

Paper markets continued to improve during the year, fueled by the improving U.S. economy as well as the industry's ability to regain export markets. It is important to recognize that we operate in a worldwide commodities market, and are subject to conditions which exist in that environment. During most of 1987, the decline in value of the U.S. dollar relative to other currencies made our industry's products much more competitive in foreign markets, thereby increasing demand internationally for many products which we produce, particularly unbleached linerboard and bleached pulp.

The growth of the remodeling markets more than offset the decline in new residential housing construction, and the markets for our building products were relatively strong throughout the year. The growth of the remodeling market is projected to continue and this will be very important to our company since, historically, it has been less cyclical than the level of new housing construction. Our strategy in the building products group is to develop and sell more products into this market; in 1987, approximately 50% of our products were ultimately used outside of new construction.

The building products group also completed a new wood converting operation at Buna, Texas. This new, state-of-the-art sawmill doubled our existing capacity for lumber production.

Lackluster new home building in Texas, as well as weak real estate markets there, hurt the Company's mortgage banking operations. The Texas market now appears to be showing slight recovery, and actions taken to improve productivity by both the mortgage banking and real estate operations should allow some restoration of profitability beginning this year.

The life insurance industry found 1987 to be a very competitive year with declining profit margins. Our life and health insurance operations suffered from adverse claims experience, which also hurt profits. To improve future margins, we are moving National Fidelity Life Insurance Company to Dallas in order to benefit from housing both life insurance companies at a single location.



Arthur Temple

Chairman of the Board

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In December, we recorded a $4.5 million charge to cover estimated costs associated with moving NFL to Dallas.

In summary, we are very pleased with Temple-Inland's record results in 1987. However, that year is behind us and we are now working on what we can do in the future.

Most of the products sold by Temple-Inland are variations of commodity-based items and are readily available from other suppliers. Although we continue to diversify our product mix, we accept the fact that the success of the Company is dependent on excelling in commodity-based sales and maintaining a low-cost structure.

Today, many companies like to talk about low cost. At Temple-Inland, our concern for low cost goes beyond just manufacturing expense. We want to win all ties, and that means being competitive in more than just price. We remain committed to providing superior service and delivering quality products manufactured at the lowest possible cost. This report will discuss some of the strategies we employ in the pursuit of these objectives.

Capital expenditures for 1988 are now projected to exceed $200 million, a record level, and we expect internally generated cash flow to provide the necessary funds for these projects. Although a significant portion of these expenditures are allocated to major additions to the Orange, Texas and Rome, Georgia linerboard mills, a large part will fund ongoing equipment upgrades and modernization programs to position our mills and converting plants to be even more productive. These programs are critical to continued success in improving our position as a low-cost producer in our varied product lines.

Another strategic move was accomplished on January 4, 1988 when the assets of Georgia Kraft Company, which previously were owned jointly by Temple-Inland and The Mead Corporation, were divided between the two companies. We acquired the Rome, Georgia linerboard mill, over 400,000 acres of timberland, and a sawmill also located in Rome. With control of the Rome linerboard mill, we expect to benefit from lower costs by being able to run an improved product mix.

The Rome mill currently produces about 2,000 tons of linerboard per day and is in the middle of a major $185 million renovation project. Capacity will increase to about 2,500 tons per day. A $60 million modernization program also is underway at the Orange mill. Although most of these capital dollars will be spent in 1988, the additional capacity will not be on line until 1989. When completed, our containerboard production will increase by about 10% to approximately two million tons annually.

In a further attempt to maximize your investment in Temple-Inland, we elected to accelerate our stock repurchase program initiated in 1985. With the decline of Temple-Inland stock price since the end of the third quarter of 1987, we believed the market substantially discounted its long-term value. During 1987, we repurchased 2,934,700 shares at an average cost of $44.35 per share. The repurchase represents almost 10% of the stock that was outstanding before the program began.



Clifford J. Grum

President and Chief Executive Officer

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Also, at its meeting of February 5, 1988, the Board of Directors increased the quarterly cash dividend to 21 cents a share, a 17% increase from the prior level. We have now increased the cash dividend every year since becoming a public corporation in 1984, and have more than doubled the dividend in that four-year period.

The record results of Temple-Inland in 1987 could not have been achieved without the loyalty and support of our customers, suppliers, employees and shareholders. We thank them for their contributions to our success and growth.

We also wish to express our gratitude to C. G. "Jack" Ames, who for 19 years was instrumental in the growth of Inland Container Corporation as a major integrated producer of containerboard and corrugated containers. In July, he retired as chairman and chief executive officer of Inland Container and as executive vice president and a director of Temple-Inland. Fortunately for us, he will remain a close advisor as a director emeritus of the Company.

At the start of 1988, domestic and export markets for paper remain very strong and we see no indication of a recession in these markets. Therefore, we believe that opportunities for immediate growth remain.

Over the longer term, we expect to maintain our commitment to growth, our low-cost producer status, and our reputation for quality, service and consistency. We are in the process of identifying and training our managers to carry on the pursuit of these goals. Our commitment to you is to continue to improve shareholder value, and we hope to maintain your support.

Sincerely,



Clifford J. Grum
President and Chief Executive Officer



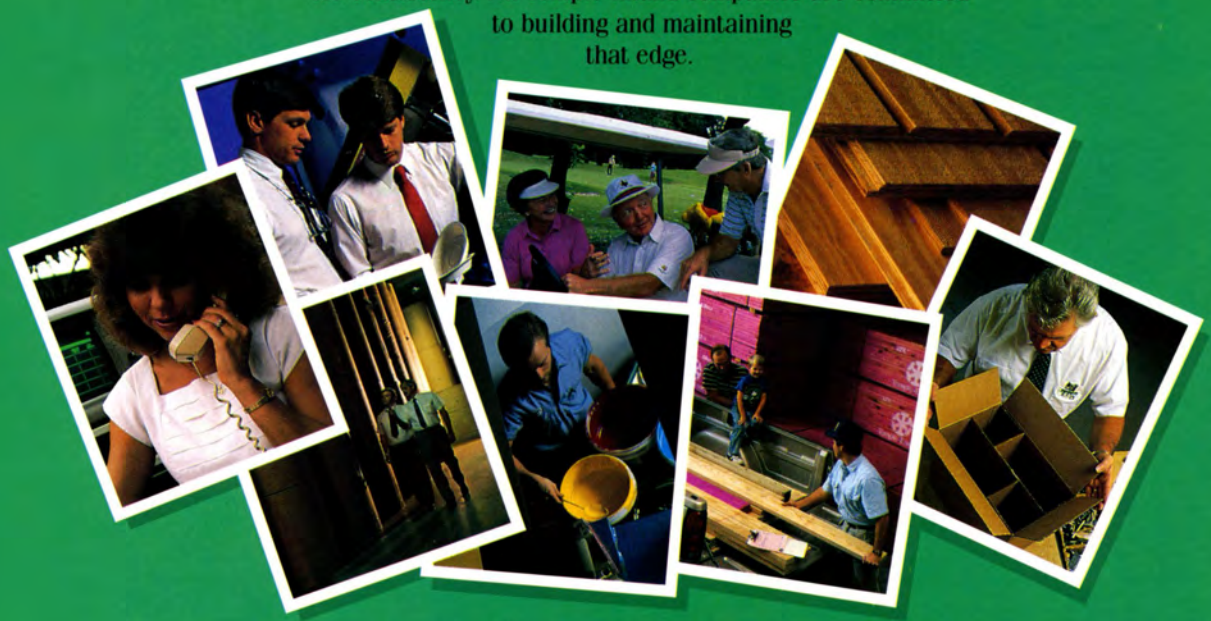
Arthur Temple
Chairman of the Board

February 19, 1988

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A Commitment To Quality And Service

Historically, the markets in which Temple-Inland competes tend to be price sensitive, with the order going to the supplier with the best price. However, today price alone is not enough. Most often, pricing falls within a close range, and when that happens, we want to offer the best overall value. To do that in today's environment, it is necessary to have a competitive edge. This means giving the best service and quality, and having a reputation for consistency. All Temple-Inland companies are committed to building and maintaining that edge.



This commitment is a way of doing business . . . a way of thinking . . . a way of acting. We have committed our resources to satisfying customers' needs. We listen to what the customers have to say and we respond positively by providing cost-effective, quality products and services. This is achieved by constant attention to the fundamentals of our businesses by focusing on problem prevention rather than detecting and correcting problems after they have appeared.

We strive to create an environment that promotes innovation and encourages our employees to be relentless in their search for ways to improve quality and service. We understand that while price is important, it is not everything. We believe our customers recognize total value and that, in turn, we will earn their business and repeat orders.

We take pride in this commitment. We constantly strive for improvement, and we measure the results. Each employee is responsible for the products produced and the service performed. We will continue to work with our customers and be sensitive to their needs. We will work with our fellow employees in a spirit of solving problems for the mutual benefit of all involved.

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Quality package graphics serve as a silent salesperson, especially when packages are displayed in retail stores. One example of graphics from Inland is litho labels for this children's picnic table.

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Each of Temple-Inland's manufacturing groups had an excellent year in 1987. Container and containerboard had a record year, the pulp and paperboard group was just shy of a record, and building products earnings were up from last year. Only the financial services group was down from 1986.

CONTAINER AND CONTAINERBOARD

Temple-Inland, through its Inland Container Corporation subsidiary, is one of the nation's largest producers of containerboard and corrugated boxes. The Company's container and containerboard segment is the largest of the four operating groups within Temple-Inland.

Revenues for the group reached $964.2 million in 1987, compared with $721.7 million in 1986. Operating income was $150.8 million, up from $38.8 million last year and more than double the previous record of $74.8 million earned in 1984.

1987 was an excellent year for the industry as well as the Company. The market remained strong throughout the year. Operating rates at containerboard mills were at the 95% plus level, which is virtual capacity. Demand was strong in both the export and domestic markets and inventories were tight. This certainly was true for linerboard, with industry exports reaching 2.17 million tons, up from 2.08 million tons in 1986 and 1.69 million tons in 1985. Although Inland is not a significant player in the export market, it did benefit because the industry as a whole was aided by the strong demand in this market.

Containerboard markets supported price improvement in 1987, first regaining prices lost since early 1985, and later in the year pushing the sales price level for linerboard to $380 per ton. Since only a small percentage of Inland's containerboard production is sold on the open market, the Company benefits only if those increases are translated into higher prices for corrugated boxes. This happened in 1987 as demand for corrugated boxes continued strong throughout the year.

Inland's corrugated shipments from its 32 box plants totaled 1,416,000 tons, up



The Inland Edge™ is a process developed and patented by Inland which allows the box to be opened by a scissors-like action resulting in a clean edge for in-store displays.



Inland design specialists create interior packing for boxes via a "total approach" considering purchase cost, protection, customer labor, space and the consumer.

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Some Inland box plants specialize in products unique to their regional markets, such as weather-resistant treatments for boxes used in outdoor packaging of fresh produce.

from 1,261,000 tons in 1986. Some of this improvement came from three box plants which were acquired in July 1986. When these plants are factored out for the first six months, Inland's shipments increased 7% from the previous year, compared with an industry increase of just under 5%.

Total containerboard production in 1987 was 1,874,000 tons, up from 1,631,000 tons in 1986. Most of the increase came from the linerboard mill in Orange, Texas, which was acquired in July 1986, and improvement at the Company's new linerboard mill in Ontario, California. This increase was offset somewhat by the loss of the Company's share of production from the Georgia Kraft mill in Macon, Georgia, which was sold September 1.

The sale of this mill was the first step in a major strategic move by the Company—the dissolution of Georgia Kraft which was 50% owned. As a result of the restructuring, on January 4, 1988, Inland became sole owner of the linerboard mill and sawmill in Rome, Georgia and over 400,000 acres of timberland.

Major capital programs are currently underway at the Orange and Rome mills to increase production and reduce costs. The $60 million modernization program at Orange should increase production to over 1,400 tons per day from the approximately 1,150 tons per day it averaged during the

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first six months under Inland's ownership.

The Rome mill is one of the largest linerboard mills in the country, producing some 2,000 tons per day on two machines. It has been a low-cost mill. A $185 million betterment program there will increase production to 2,500 tons per day and further reduce cost. When completed in 1989, this program, along with the Orange mill expansion, will increase Inland's production of containerboard by approximately 10% to about two million tons annually.

Inland continues to emphasize capital investment in its box plants to improve productivity and reduce labor costs. Equipment such as feeders and conveyors is aimed at accomplishing these objectives. Another current focus is on equipment to reduce changeover times and reduce waste. This includes electric knives, robotic slitters, improved splicers and modern starch mixers for the corrugators, and new computer-controlled setup features for finishing equipment.

Emphasis on customer service and quality is a top priority at Inland. Box customers are demanding better printability and graphics on their boxes. They want more strength with less weight, just-in-time delivery and consistency. Companies that meet these demands will gain and keep customers.

During 1987, additional manpower was placed in the containerboard development area to improve compression and printability, and to reduce variations in board weight and moisture profiles. A major quality commitment during 1987 was in printing. Special employee education programs have been developed and given on inks and dies and on the technology of printing itself.

Statistical Process Control has become a major program and will receive increased attention and emphasis over the next several years. There is improved



For over a decade, our specialists have been computer-designing packages that save material and space, using Packaging Analysis Computer System (PACS)™.



A PACS program helped design the pallet configuration to best utilize warehouse and shipping space for this product.

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Uniform, consistent quality is a must for boxes used in high-speed packaging lines.



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liaison between box plants and the mills which has prioritized this focus on quality. Management recognizes that consistent good quality is fundamental to building a stronger customer base in this competitive business. For example, just-in-time delivery is becoming a common requirement for many customers and is centered on customers knowing they are assured reliable quality.

Inland also has begun to utilize a new computer communication system to provide customers with current order and shipping information. The number of sales service representatives has been increased and they have been given increased sales training. They now call on customers on a regular basis, reflecting the increased commitment to improved service.

There continues to be a consolidation of many of Inland's major box customers, and many of these national companies are forming buying councils to purchase goods and services on a national basis. With its network of box plants, the Company is well situated to take advantage of these centralized buying councils which demand localized service.

At the same time, efforts are being made to fill gaps in Inland's geographic coverage, where there are strong reasons for the Company's presence. Decisions to enter these areas by acquisition or new construction will be made on a situation-by-situation basis.

As 1988 progresses, Inland will continue the integration into its system of the Rome mill complex. It plans to increase box shipments by maximizing the utilization of the capacity of its box plants, while concentrating on new markets and higher value-added products.

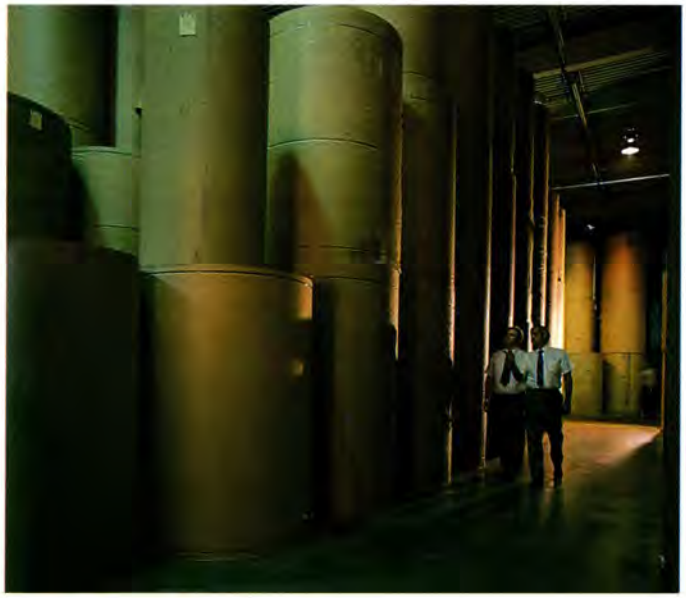
The financial performance of the container and containerboard group will depend on the viability of worldwide manufacturing activity, which some economists are predicting will soften in the second half of 1988. Current market conditions remain exceptionally strong, and management sees no indication that any deterioration has begun.

PULP AND PAPERBOARD

While the Company's container and containerboard group basically has one product that it produces at many locations, the pulp and paperboard group produces many products at one location.

The Temple-Eastex bleached paperboard mill at Evadale, Texas, is one of the nation's largest producers of specialty grade paperboards. It produces some 10 different grades of paperboard and bleached bristol variations.

It is a non-integrated operation in that it converts none of its production. Rather, it sells its bleached paperboard to converters throughout the country who produce paper cups, plates, folding cartons, file folders,



Inland mills use statistical process control to help them produce quality containerboard for Inland box plants as well as other customers.



Templex™, developed by Temple-Eastex, is a marriage of wood and synthetic fibers having characteristics which allow the product to travel from the freezer to high-temperature ovens, or microwaves, and then to the dinner table.

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The Evadale mill produces high-quality, bleached paperboard for dozens of products, including folding cartons such as these French fry cups.

shopping bags and many other products.

Currently, the mill's configuration allows it to produce more pulp than it is able to convert into paperboard. The excess pulp is sold worldwide.

In 1987, the mill produced 474,000 tons of bleached paperboard and 99,000 tons of pulp. Operating earnings were $53.4 million, very close to a record, and compared with $29.4 million in 1986.

Because the Company manufactures such a wide variety of paper grades, the customer base is just as varied and represents a wide range of American industry. Most of the products are converted into consumer-oriented packaging and products. Superior quality is essential, and the equipment in the mill has continually been upgraded to produce the highest quality at the lowest cost.

The Evadale mill has three fourdrinier paper machines and one cylinder machine. All of the machines have been upgraded to present-day technology.

In 1986, the coater section of the number two machine was rebuilt, enabling the machine to produce a higher-quality cover grade stock. The cover of this annual report is Texcover®, an example of this grade.

In order to be competitive over the long term, the mill is immersed in a "quality management" program which focuses on workmanship, product, human resources and organizational structure. Management believes that quality can best be achieved by the successful combination of automated production and thoroughly trained human resources. Personnel are involved in a constant program of skills training and retraining aimed at improving both management and production capabilities. To maximize the effectiveness of this approach, teamwork is emphasized. This has resulted in a leaner organizational structure with decision-making at the lowest possible level.

Quality and service are the keystone of a specialty mill like Evadale. In fact, both are necessary to attract and keep customers in today's business environment. To help, the mill has a customer service group which represents a single source of information for the customer. Additionally, it has introduced an electronic data exchange with its customers who need immediate information. During 1987, the Company began providing additional technical help for customers and encouraged joint customer-Company teams for product enhancement. Furthermore, it has increased its emphasis on consistency so that product runs achieve the same high standards from one shipment to the next.

While quality and service have received a great deal of attention at the mill, so have efforts to develop higher value-added products. In addition to Texcover®, two products are notable—Templex™

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The Evadale mill is one of the country's largest suppliers of bleached paperboard to paper plate manufacturers.

and Synfluf™. Both are a marriage of wood and synthetic fibers. The products are aimed at two entirely different markets. Both offer quality characteristics superior to products currently being made with other materials. Templex™ is aimed at the food processing industry where aluminum, molded wood fiber and ovenable paperboard are the incumbents. Synfluf™ is designed to do a superior job in manufacturing disposable diapers, adult incontinent pads and feminine hygiene products.

There are many challenges and opportunities for the Evadale mill. The addition of the Orange mill has created a new opportunity. As an example, the Evadale mill has more pulping capacity than paper machine capacity, while the opposite is true at Orange. As a result of balancing the combined mills' capacities, output at the Orange mill rose approximately 100 daily tons while lowering costs. The challenge is to determine

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Major producers of file folders rely on the Evadale mill for quality paper to convert into their products.



Temple-Eastex produces a wide range of wood panel products, including fiberboard, plywood, particleboard and oriented strandboard.

how to get maximum benefits at both mills. Additional opportunities will be available once the two Texas mills are linked in 1989 with the extension of the Company's local railroad.

In 1987, markets for pulp and bleached paperboard grades were very strong and the pricing environment was improving. It appears that 1988 will continue strong, with no new industry machine capacity scheduled to come on stream and incremental increases expected to be minimal.

BUILDING PRODUCTS

The Company's building products group is somewhat unique in that it is a highly diversified operation within itself, not dependent on any one product. The Company is a major factor in certain geographic markets in the production of lumber, particleboard, gypsum and fiberboard, while less of a factor in plywood, rigid foam board,decorative wall paneling and oriented strandboard.

Operating earnings for the group totaled $36.5 million in 1987, up from $35.9 million in 1986. Sales totaled $322.8 million in 1987, up from $281.5 million the previous year.

Changing levels of construction activity create different demand for various building materials. In 1984-85, for example, the strong economic activity in the sunbelt created exceptional demand for gypsum and that product was the largest contributor to operating earnings during that period. Beginning in 1986, these profits diminished, with lumber and particleboard now being the largest contributors to earnings.

Our strategy within each product group is to market the product for its maximum value. Most of the particleboard we produce is sold to furniture and cabinet makers, with very little in the commodity grade used for flooring. Also, a large part of southern lumber is presently treated with a preservative and used for porches, patios and pool decking. Since these products have alternative uses, their performance is not tied as closely to the level of new housing construction as some other products.

1987 was a year of transition. The repair and remodeling markets rose to a level of importance almost equal to that of new home construction. This is a market driven by small contractors as well as the "do-it-yourselfer." The challenge in serving this market is in building solid relationships with major national retailers of building materials. The merchandising concept used by these large chains has greatly influenced and will continue to influence marketing patterns of building products.

Manufacturers are moving away from the traditional auction method of selling

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TemStock™ industrial particleboard, far superior to commodity grades used for flooring, is a major component in today's ready-to-assemble furniture. More than 50% of the Company's particleboard now goes to non-residential uses.

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High-quality Temple-Eastex lumber and studs are readily available to the do-it-yourselfer from retailers of building materials.



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building products into new customer/supplier relationships where service and consistent quality requirements are absolutely essential. In this environment, those companies with the best quality and service will win.

A key element in the Company's quality assurance plan has been the introduction of Statistical Process Control at each of the converting facilities. As with the paper mills and box plants, the system utilizes statistical methods to monitor process inputs and outputs during production and is aimed at providing consistency of product, and at preventing problems before they occur.

This program, coupled with existing controls, allows management to focus attention on the process and variations to the process, and on productivity and costs. This ongoing quality assurance program, together with employee training and involvement in plant operations, and improved communications, has helped focus attention on the Company's dedication to quality, service and consistency.

Capital spending to keep our production facilities competitive has been ongoing. Computerized systems to increase lumber recovery at our sawmills and a system which better controls wood usage in the particleboard process are two major projects completed last year.

Also completed in 1987 was a state-of-the-art wood converting facility at Buna, Texas. The mill is in the heart of our east Texas timberland, which permits us to log the mill from nearby land. The mill has a design capacity of 120 million board feet of lumber annually and is uniquely capable of efficiently converting logs of all diameters to a wide range of lumber sizes, including premium grades, to serve the changing needs of the marketplace.

The Buna complex is located on the Company's short-line railroad, just 27 miles from the Orange linerboard mill and 10 miles from the Evadale paperboard mill. The Buna complex will generate some 185,000 tons of chips annually, and these chips can be shipped to our own paper mills quickly and economically.

With the growth of our paper mills in east Texas, there is a need for additional pulpwood and sawmill chips to feed these mills. Since a sawmill is a very efficient way to produce by-product chips, we are studying the feasibility of building another wood converting facility in the area.

In 1987, Temple-Eastex laid the foundation to better control the production process at its many facilities to maintain a consistently high level of quality. In 1988, the Company will continue to focus on marketing efforts to exploit those opportunities provided by changing channels of distribution, as well as enhancing relationships built on the Company's reputation for quality and service.



Demand for southern yellow pine lumber has increased significantly due to its use with preservative treatments to provide years of beauty in outdoor wood applications.



Temple-Eastex hardwood siding products are attractively displayed in building materials stores.

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Lumbermen's Investment Corporation produced $524 million in mortgages in 1987 and currently services a portfolio of about $3.2 billion.



Temple-Inland Properties is a financial partner in a number of residential and commercial developments, mainly in San Antonio and Austin, Texas.

FINANCIAL SERVICES

Temple-Inland Financial Services, Inc. encountered difficult markets in most of its business segments during 1987, resulting in a decline in earnings from a 1986 record of $33 million to $7.6 million. Financial Services' operations are primarily involved in mortgage banking, real estate development and insurance. Mortgage banking activities are transacted through branch office networks from Texas to Minnesota in the central United States. Real estate development activities have been limited to the major metropolitan areas of Texas, whereas life insurance transacts business nationwide. The historical performance of this operating group has been excellent, but during 1987, significant adverse factors and circumstances resulted in an off year.

Mortgage banking and real estate operating results were negatively impacted by the aggressive expansions of existing lending institutions and the addition of many new major financial and industrial firms into Financial Services' markets. Also, a large part of the Company's business activities is transacted in the sunbelt region, where energy and real estate problems have become legend.

Weak operating earnings in life insurance were the result of excessive adverse claims experience from health oriented products. Additionally, there was a $5.6 million write-off of costs associated with the minimum deposit life insurance block of business which we are abandoning. A decision was made that costs associated with this complete block should be written off.

Certain products and lines of business which have not proven economically profitable are being discontinued, including medical coverage through associations and groups.

Both Great American Reserve Insurance Company (GARCO) and National Fidelity Life Insurance Company (NFL) will now be headquartered in Dallas, Texas for the first time. This will enable the companies to realize benefits from the efficiencies of having the two located in the same building.

GARCO has developed a unique position in marketing insurance to educators through public school systems, particularly in the southwestern United States. One-third of the GARCO sales activities now target educator markets, with such products as variable and fixed annuities, group disability coverage, and group and individual life. These markets will receive continued emphasis during the coming year.

At both GARCO and NFL, service to the customer has the same priority as it

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does in Temple-Inland's manufacturing operations. The centralization of various components of the insurance business should enable even better service to the policy holder, while at the same time enhance the companies' ability to be low-cost producers.

The insurance industry is operating in a period of significant transition. GARCO and NFL will continue to modify their mix of products offered to meet the changing environment and to provide an avenue for future growth in this business. Both companies continue to be A+ (excellent) rated by the A. M. Best Company.

Timberline Insurance Managers, Temple-Inland's casualty agency, experienced another year of solid earnings and service to customers. This segment reported earnings at comparable levels to 1986. Emphasis has been placed on the growth of personal lines of business coverage. Timberline continues to be successful at developing new commercial business.

Interest rate volatility and declines in residential sales during 1987 negatively impacted the mortgage banking group's earnings. Loan origination activity continued high, but declined by 20% from the 1986 level. A rise in mortgage interest rates beginning in the second quarter of 1987 reduced refinancing activity, and poor housing markets, particularly in the Texas and Oklahoma areas, caused new loan demand to decline steadily as the year progressed. The net portfolio growth for 1987 was a disappointing 3%.

The difficulties in the energy-based Southwest economy and the associated deflating real estate values resulted in high levels of foreclosures in the mortgage banking group. The increase in foreclosure activity caused significant increases in real estate properties owned and costs associated with holding, improving, and maintaining these properties. Earnings in 1987 were reduced by $5 million due to these costs.

To offset declines in earnings, the mortgage banking group began a process of combining activities and restructuring operations to restore efficiencies to the various components of its business activities. By redistributing responsibilities and combining job functions, the mortgage banking group expects to be able to reduce costs by $1 million per year beginning in 1988.

After lengthy delays in the regulatory process, Temple-Inland Financial Services entered a new segment of its industry with the closing of the previously announced purchase of Kilgore Federal Savings and Loan Association in Kilgore, Texas. This addition will add a new dimension to Temple-Inland's real estate and mortgage banking activities by providing the opportunity to capitalize on synergies between the various groups.



Customer service is the highest priority at Temple-Inland's insurance companies.



Annuity products developed for the educator markets provide income to enable retirees to enjoy the good life. Over one-third of the GARCO products sales now target educator markets.

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Temple-Inland now owns more than 1.7 million acres of timberland which enables the Company to be self-sufficient in many areas. In 1987, Temple-Inland's operations provided 59% of the fiber requirements of our production facilities.



Over 25 million pine seedlings were grown at our nursery near Newton, Texas and transplanted last year on Company land.



Responsible land management has begun to restore the population of the once endangered wild turkey on Company lands.

TIMBER AND TIMBERLANDS

Temple-Inland owns over 1.3 million acres of timberland in east Texas and Louisiana. With the division of Georgia Kraft Company, we now own an additional 400,000 acres of land in Georgia, and control approximately 100,000 additional acres through long-term leases. Our forest management practices are designed to increase the growth of fiber on each acre of land and then to harvest this growth in the most economical conversion to profits.

Our lands in Texas and Louisiana have been under intense forest management practices for many years and now provide our mills with more than 50% of our fiber needs. Currently, our Georgia lands are providing only about 20% of our needs at the Rome mill, largely because these lands have not been under intense management as long as our Texas lands. However, the growth of younger trees on these lands assures us that substantially more timber will be available for harvesting in the future.

As we indicated, our second strategy is to get the maximum profits from our forests. This includes not only proper harvesting techniques but also maximizing the value of any fiber which is available from the trees harvested. One major obstacle to overcome is the freight cost from the forest to the nearest converting facility, and we continue to evolve new techniques to reduce this cost.

A new computer model forecasts the inventory levels on any tract of land, projects the most desirable use of each tree, including the freight factors to the various converting locations.

During the past four years, pine timber available for harvesting in our operating regions has been exceeding fiber needs and prices have declined. With the increased production of pine lumber last year, fiber markets began to tighten and prices have begun to escalate. Since a large majority of our pine sawtimber needs are generated from our own forests, this will enhance our profitability and allow us to obtain a better return from our forests which has been depressed recently.

In addition to the 400,000 acres of timberland which we received from Georgia Kraft, another 20,000 acres were left under joint ownership with Mead. These lands are projected to have realizable value well in excess of their agricultural capacities and will be liquidated as opportunity permits.

The Company's management practices have produced not only a great commercial forest but also an environment as close as possible to its natural state. In fact, there is more wildlife on these lands now than at any time in the past. Certain areas have been preserved for their botanical beauty, while other areas are open to the public for recreational activities.

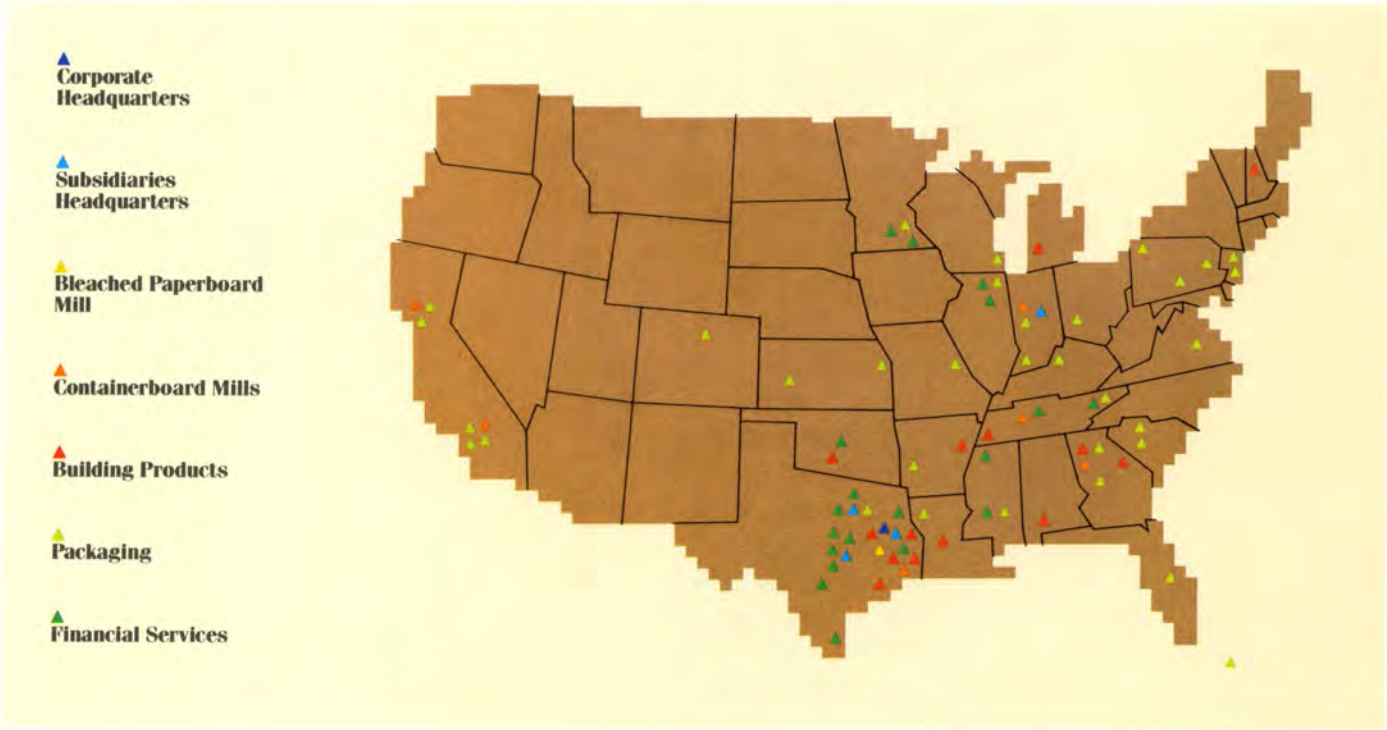
Through the Company's auspices, the wild turkey was reintroduced into certain of its former breeding grounds. This magnificent game bird, nominated by Benjamin Franklin to be our national symbol, was once plentiful in wooded areas throughout the Eastern Seaboard, the Appalachian region and the Southern pinelands. As civilization encroached, the turkey's range declined and in the early 1950s, naturalists voiced concern about the eventual fate of the bird. Through careful land management, Temple-Inland and other responsible timberland owners have played a positive role in the return of this stately fowl.

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Approximately half of the Company's 1.7 million acres of timberland are in pine plantations, which will greatly increase the yield per acre when harvested.

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Corporate Headquarters
Diboll, Texas

Subsidiaries Headquarters
Inland Container Corporation
Indianapolis, Indiana
Great American Reserve Insurance Company
Dallas, Texas
Lumbermen's Investment Corporation
Austin, Texas
National Fidelity Life Insurance Company
Dallas, Texas
Temple-Eastex Incorporated
Diboll, Texas
Temple-Inland Financial Services Inc.
Austin, Texas

Bleached Paperboard Mill
Evadale, Texas

Containerboard Mills
Linerboard
Ontario, California
Rome, Georgia
Orange, Texas
Corrugating Medium
Newark, California
Newport, Indiana
New Johnsonville, Tennessee

Building Products
Fiberboard Operation
Diboll, Texas
Rigid Foam Operation
Diboll, Texas
Particleboard Operations
Diboll, Texas
Monroeville, Alabama
Thomson, Georgia
Gypsum Operations
West Memphis, Arkansas
Fletcher, Oklahoma
Plywood Operation
Pineland, Texas
Lumber Operations
Rome, Georgia
Diboll, Texas
Pineland, Texas
Buna, Texas
Oriented Strandboard Operation
Claremont, New Hampshire
Retail Distribution Operations
Diboll, Texas
Pineland, Texas
Conroe, Texas
Houston, Texas
Alexandria, Louisiana
AFCO Industries Operations
Alexandria, Louisiana
Holland, Michigan
Memphis, Tennessee

Packaging
Corrugated Container Plants
Fort Smith, Arkansas
Los Angeles, California
Newark, California
Ontario, California
Santa Fe Springs, California
Tracy, California
Denver, Colorado
Orlando, Florida
Macon, Georgia
Rome, Georgia
Chicago, Illinois
Crawfordsville, Indiana
Evansville, Indiana
Garden City, Kansas
Kansas City, Kansas
Louisville, Kentucky
Minden, Louisiana
Minneapolis, Minnesota
Hattiesburg, Mississippi
St. Louis, Missouri
Edison, New Jersey
Spotswood, New Jersey
Middletown, Ohio
Biglerville, Pennsylvania
Erie, Pennsylvania
Hazleton, Pennsylvania
Vega Alta, Puerto Rico
Lexington, South Carolina
Rock Hill, South Carolina
Elizabethton, Tennessee
Dallas, Texas
Richmond, Virginia
Anderson Box Company
21 warehouses located throughout the country
Rexford Paper Company
Milwaukee, Wisconsin

Financial Services
Mortgage Loan Operations
Austin, Texas
Dallas, Texas
Houston, Texas
Killeen, Texas
Temple, Texas
San Antonio, Texas
Garland, Texas
Round Rock, Texas
Corpus Christi, Texas
Downers Grove, Illinois
Gurnee, Illinois
Oklahoma City, Oklahoma
Knoxville, Tennessee
Memphis, Tennessee
Jackson, Mississippi
Southaven, Mississippi
Eagan, Minnesota
Minneapolis, Minnesota
Savings & Loan Association
Kilgore, Texas

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Management's Discussion and Analysis
Results of Operations and Financial Condition

Results of operations including information regarding the Company's principal business segments are shown below.

Business Segments For the year	1987	1986	1985	1984	1983
			(in millions)		
Net Sales					
Container and containerboard	$ 964.2	$ 721.7	$ 684.2	$ 665.3	$ 596.9
Pulp and paperboard	292.5	264.9	256.7	284.5	253.2
Building products:					
Manufacturing	290.7	251.0	226.9	226.6	207.5
Retail	32.1	30.5	41.1	68.7	87.6
Other activities (1)	23.2	27.7	34.2	17.8	30.3
	$ 1,602.7	$ 1,295.8	$ 1,243.1	$ 1,262.9	$ 1,175.5
Income Before Taxes					
Container and containerboard (2)	$ 150.8	$ 38.8	$ 49.7	$ 74.8	$ 20.8
Pulp and paperboard	53.4	29.4	19.8	46.8	20.0
Building products:					
Manufacturing	36.8	36.2	23.5	40.2	31.0
Retail	(.3)	(.3)	(1.0)	.7	4.2
Other activities (1)	—	(5.8)	2.5	(3.2)	(2.1)
Operating profit	240.7	98.3	94.5	159.3	73.9
Financial services	7.6	33.0	25.3	15.2	13.8
	248.3	131.3	119.8	174.5	87.7
Corporate expense	(11.7)	(13.1)	(8.1)	(11.9)	(7.2)
Interest—net	(20.3)	(13.0)	1.2	(4.6)	(4.7)
Other income—net	—	3.6	2.2	1.8	2.9
Gain on sale of property and equipment (3)	4.1	4.5	12.5	5.8	—
	$ 220.4	$ 113.3	$ 127.6	$ 165.6	$ 78.7

(1) Primarily industrial contracting.
(2) Includes $16.1, $19.1, $22.1, $21.7 and $24.6 million of operating income from Georgia Kraft, formerly a 50% owned affiliate of the Company, for the years 1987, 1986, 1985, 1984 and 1983, respectively. These Georgia Kraft income amounts are deducted from cost of sales in the statement of income. See Note L to Consolidated Financial Statements.
(3) Includes a $11.3 million pre-tax gain on the sale of the Company's Eastex Packaging subsidiary in 1985.

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Container and Containerboard

The Company's Container and Containerboard operations manufacture linerboard and corrugating medium and convert these grades of containerboard into corrugated shipping containers. Historically, this segment had operated as a fully integrated unit, converting its own corrugating medium and linerboard into boxes at 32 box plants. In 1986, the balance had shifted from full integration to a level where production of containerboard exceeded converting demand by 277,000 tons, most of which was sold on the open market. In 1987, production of containerboard exceeded converting demand by 354,000 tons.

The table below reflects board manufactured at the Company's mills during 1987, 1986 and 1985. The significant increase from 1985 to 1986 resulted from increased production due to the start-up of a recycle linerboard mill in Ontario, California during 1986, as well as production from the linerboard mill in Orange, Texas which the Company acquired on July 1, 1986. 1987 production figures include improved production at Ontario and a full-year's production at the Orange mill. The Ontario mill production was up 35,000 tons to 190,000 and the Orange mill produced 470,000 tons compared with 206,000 in the last half of 1986.

	1987	1986	1985
Tons Mill Production	1,874,000	1,631,000	1,294,000

At the 32 box plants, the Company manufactures a wide range of boxes from the simplest brown box to intricate die cut containers which can be printed with many colors and attractive graphics. Average price per ton of boxes can be significantly impacted by variations in production mix at the various locations.

The Company's average box price for 1987 was up 13% from the 1986 average, which had been 4% below the 1985 average. The historical peak for box prices had been the prices experienced in January 1985. Prices had declined from the January 1985 peak until the second quarter of 1986 when they began improving. This price improvement continued throughout 1987. Prices equal to the January 1985 peak were reached during the second quarter of 1987 and continued to improve to new peaks in the fourth quarter of 1987.

Tonnage through the Company's box plants increased by 13% in 1987 from 1986 when tonnage had been up 10% over 1985 levels. Revenues from increased tonnage as well as improved sales prices pushed profits to record levels in 1987.

The table below shows the container and containerboard sales in tons and dollars for each quarter in 1987, 1986 and 1985. The totals presented include not only boxes but open market, domestic and export sales of linerboard, bag paper and related products. Changes in product mix from period to period may make historical comparisons difficult.

Container & Containerboard	1987	1986	1985
Unit Sales		(in thousands of tons)	
1st Quarter	454	317	304
2nd Quarter	447	335	312
3rd Quarter	471	399	323
4th Quarter	430	421	309
For the year	1,802	1,472	1,248
Net Sales		(in millions)	
1st Quarter	$232.8	$153.8	$178.2
2nd Quarter	235.2	163.8	176.1
3rd Quarter	254.1	194.1	169.8
4th Quarter	242.1	210.0	160.1
For the year	$964.2	$721.7	$684.2

Pulp and Paperboard

The Company's Pulp and Paperboard group produces bleached paperboard at its Evadale, Texas mill and sells production to manufacturers who convert the product into paper cups, plates, shopping bags, file folders and a wide range of other products. Following sales price declines in 1985, prices began to move upward during the third quarter of 1986. The average net sales price per ton for 1987 was up 8% from 1986 levels which had been down 1% from 1985 average sales prices. The product with the most significant improvement during 1987 was bleached pulp. Prices improved in this grade by 29% during 1987.

Tonnage produced in 1987 was 573,000 tons compared with 562,000 tons in 1986 and 534,000 tons in 1985. The 1985 tonnage was below recent years as a result of market conditions which dictated that the Company take down-time in the fourth quarter of 1985. As a result of full operations, lower manufacturing costs, and improved product pricing, operating income for the Pulp and Paperboard group rose 82% from 1986, which had been up 48% over 1985.

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The table below lists the quarterly sales by product for 1987, 1986 and 1985 in tonnage and dollars.

Pulp and Paperboard	1987	1986	1985
Unit Sales		(in thousands of tons)	
Paperboard			
1st Quarter	123	115	114
2nd Quarter	119	117	113
3rd Quarter	109	110	108
4th Quarter	106	116	117
For the year	457	458	452
Pulp			
1st Quarter	25	25	27
2nd Quarter	25	23	18
3rd Quarter	31	25	21
4th Quarter	31	30	17
For the year	112	103	83
Net Sales		(in millions)	
Paperboard			
1st Quarter	$ 64.2	$ 56.8	$ 59.6
2nd Quarter	63.3	59.0	60.5
3rd Quarter	59.1	56.2	55.7
4th Quarter	58.1	59.4	54.6
For the year	$244.7	$231.4	$230.4
Pulp			
1st Quarter	$ 8.8	$ 6.0	$ 7.3
2nd Quarter	8.9	6.6	5.1
3rd Quarter	11.7	7.7	5.6
4th Quarter	13.3	10.1	4.9
For the year	$ 42.7	$ 30.4	$ 22.9
Other			
1st Quarter	$ .7	$ 1.4	$ 1.3
2nd Quarter	1.5	1.1	1.0
3rd Quarter	1.6	.4	.7
4th Quarter	1.3	.2	.4
For the year	$ 5.1	$ 3.1	$ 3.4

Building Products

The Building Products group manufactures a complete line of building products including lumber, plywood, fiberboard, particleboard, gypsum wallboard, oriented strandboard, rigid foam insulation and decorative wall paneling. The following tables provide information on sales volume and unit sales for the past three years for each of the building product lines.

Building Products	1987	1986	1985
Unit Sales		(in millions of board feet)	
Pine lumber	174	156	135
		(in millions of square feet)	
Fiberboard	458	436	415
Particleboard	321	297	283
Plywood	212	203	164
Gypsum wallboard	670	397	326
Decorative wall paneling	50	50	51
Rigid foam insulation	71	78	73
Oriented strandboard	80	67	68
Net Sales		(in millions)	
Pine lumber	$ 39.5	$ 30.4	$ 26.8
Fiberboard	52.8	56.1	50.1
Particleboard	61.5	50.1	40.2
Plywood	31.1	28.9	22.0
Gypsum wallboard	49.1	36.9	34.8
Decorative wall paneling	12.5	12.7	13.0
Rigid foam insulation	13.5	15.0	15.3
Oriented strandboard	10.0	8.2	9.1
Retail distribution	32.1	30.5	41.1
Other	20.7	12.7	15.6
For the year	$322.8	$281.5	$268.0

After soft markets in 1985 and 1986, caused in part by increased volumes of Canadian lumber imported into the United States, the demand for lumber as well as lumber prices increased during 1987. The average sales price for lumber was up 17% in 1987 from 1986 which had been down 2% from 1985.

Significant price improvement was also recognized in the Company's particleboard operations. Prices were 14% above 1986 levels, which had been 19% above 1985. The price increases were due in part to strong demand in nonresidential uses of particleboard for products such as furniture and cabinets. Forty-eight percent of the company's total production is now sold to manufacturers who use the product in nonresidential applications.

The earnings contribution from lumber and particleboard served to offset the declines in gypsum wallboard and fiberboard products. Manufacturing profit was $36.8 million in 1987 compared with $36.2 million in 1986, an increase of only 2%, though 1986 levels had been 54% above 1985 profits. The lower 1985 level was due to depressed prices for most of the Company's major building product lines.

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The Company's gypsum wallboard plant in Fletcher, Oklahoma, which became operational in July 1986, reached full production in early 1987. The plant, with an estimated annual capacity of 350 million square feet, operated efficiently throughout the year and was able to contribute marginally to profit despite the softness in the Texas and Oklahoma markets. In addition, this added production from the Fletcher plant enabled the Company to ship products from its West Memphis, Arkansas wallboard plant to more profitable markets.

The Company's new wood resource complex located near the town of Buna in east Texas began operations in the fourth quarter of 1987. The complex, with an annual lumber capacity estimated to be 120 million board feet, will provide a more efficient vehicle for converting fiber in the southern regions of the Company's timberlands, while at the same time supplying chips, a major by-product of the lumber manufacturing process but a major raw material source for paper products, to the Orange, Texas linerboard mill. These chips can be supplied at substantial freight savings.

The Buna complex, which is located on the Company's short line railroad, will soon be tied by rail to the Company's Evadale, Texas bleached pulp mill as well as the Orange, Texas linerboard mill and should provide freight savings on the shipment of chips as well as black and green liquors between the two locations.

The retail operations continue to suffer, particularly in the Houston, Texas market. Restructuring and cost containment efforts enabled the retail operations to operate in a poor environment with a $.3 million loss in 1987, a $.3 million loss in 1986 and a $1 million loss in 1985.

Temple-Inland Financial Services

The Company's Financial Services operations, which began as a mortgage banking operation in 1954, consist today of mortgage banking, real estate development and insurance activities. The results of these operations are not consolidated with the Company for financial reporting purposes because such businesses are dissimilar to the Company's other businesses. See Note B of Notes to the Consolidated Financial Statements for a discussion of the future impact of full consolidation of Temple-Inland Financial Services with the Company's manufacturing businesses.

Difficult times in the financial markets, particularly in the Texas economy, and changes in the competitive environment and products produced, negatively impacted Financial Services and caused lower operating results in most of the major segments. The following information and discussion of each business segment are provided to offer a more detailed description and explanation of the business activities and operations of Financial Services. Selected segment information is set out below.

Temple-Inland Financial Services
Selected Segment Information

Years ended December 31	1987	1986	1985
		(in thousands)	
Income			
Mortgage banking	$ 4,428	$ 6,545	$ 6,622
Land development and income properties	(1,695)	3,331	8,116
Agency insurance	1,543	1,366	937
Life insurance:			
Income from operations (a)	13,867	31,803	15,898
Acquisition interest	(11,635)	(11,752)	(9,170)
	2,232	20,051	6,728
Other activities	1,113	1,741	2,912
Income before taxes	7,621	33,034	25,315
Taxes on income	2,722	10,339	8,353
Net income	$ 4,899	$ 22,695	$ 16,962
Assets			
Mortgage banking	$ 98,144	$145,318	$ 98,065
Land development and income properties	20,976	18,801	20,121
Agency insurance	9,548	5,308	4,729
Life insurance (b)	177,432	185,233	174,637
Savings and loan (b)	10,084	—	—
Other	11,533	4,721	9,640
Total assets	$327,717	$359,381	$307,192
Liabilities			
Mortgage banking	$ 90,617	$142,160	$ 96,587
Land development and income properties	21,852	16,450	15,440
Agency insurance	8,540	4,342	3,752
Life insurance (acquisition debt)	132,900	134,900	133,400
Savings and loan (acquisition debt)	7,550	—	—
Other	1,225	1,395	1,574
Total Liabilities	$262,684	$299,247	$250,753
Equity			
Mortgage banking	$ 7,527	$ 3,158	$ 1,478
Land development and income properties	(876)	2,351	4,681
Agency insurance	1,008	966	977
Life insurance	44,532	50,333	41,237
Savings and loan	2,534	—	—
Other	10,308	3,326	8,066
Total equity	$ 65,033	$ 60,134	$ 56,439

(a) Equity in the pre-tax earnings of unconsolidated insurance subsidiaries. Such subsidiaries are not consolidated because they are dissimilar to the other businesses of the financial services group.
(b) Investment in unconsolidated insurance and savings and loan subsidiaries.

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Mortgage Banking

The mortgage banking operations of Financial Services are conducted through Lumbermen's Investment Corporation. Mortgage banking is basically two businesses: the first, arranging the financing for purchasers of real estate; and the second, the servicing of these mortgage loans.

The Company's loan origination operations cover the middle geographic section of the United States and had prior to 1986 historically produced $300 to $500 million in mortgages annually. The volume of mortgages may vary from year to year depending on the health of the residential and commercial real estate markets and on interest rates. While originations in mortgage loans in 1986 had climbed to $651 million, due partially to heavy refinancing activity, weakness in residential and commercial markets produced only $524 million in originations in 1987 with the trend expected to continue downward. Though increasing interest rates in 1987 resulted in declines in refinancing activities, the Company, for the second year in a row, realized only marginal servicing portfolio growth.

The mortgage banking operation does not generate significant income in the year in which loans are originated. Rather, the values are created in the year that the loans are originated, resulting in earnings in future years from either servicing or selling the right to service the loans for one-time profit. The Company normally elects to retain the right to service these loans. The Company now services a portfolio of approximately 86,700 loans with a balance of $3.2 billion compared to 86,000 loans with a balance of $3.1 billion in 1986 and 81,000 loans with a balance of $2.9 billion in 1985.

An additional source of profit for the mortgage banker is revenues earned from a favorable interest rate spread between long-term and short-term interest rates. The mortgage banker borrows at a short-term rate to finance the mortgage loans for two to three months between origination and shipment of the loan to the ultimate investor. In stable and declining interest rate environments, the mortgage banker earns the spread between his short-term borrowing and the long-term interest rate actually paid on the loans. However, in a rising interest rate market as experienced for much of 1987, these spreads on some occasions become negative and result in reduced or negative margins to the mortgage banker. The earnings on these spreads during 1987 were $5.2 million compared to $6.0 million in 1986 and $4.9 million in 1985.

Historically, the mortgage banker was considered not to have the risk of principal loss on the foreclosure of a mortgage loan, only the cost of foreclosing and administering the delinquent loans. The Company's two areas of concern now include the interest carry on FHA/VA loans and potential loss of principal on real estate properties foreclosed. Foreclosure rates reached an all-time high in 1987, and the economic cost of foreclosure including provisions for potential losses, selling expenses and interest carry was $4.9 in 1987, up from $3.5 million in 1986, which was up from $1.5 million in 1985.

The Company now holds 294 real estate owned (REO) properties acquired through foreclosure compared to 168 at the end of 1986 and 51 at the end of 1985.

On December 31, 1987, after significant delays in the regulatory approval process, the Company acquired all of the outstanding common stock of Kilgore Federal Savings and Loan, Kilgore, Texas, for approximately $10 million. The financial institution has assets of approximately $90 million, including approximately $40 million of investment securities and $45 million of loans, and has liabilities of approximately $80 million including approximately $79 million of deposits. The acquisition of this institution will now allow Financial Services to benefit from the synergy of operating both a mortgage banker and a savings and loan.

A summary of selected financial information for the years 1987, 1986 and 1985 is provided below.

Mortgage Banking Operations Summary Years ended December 31	1987	1986	1985
		(in thousands)	
Revenues	$30,008	$32,456	$26,133
Income Before Taxes	4,428	6,545	6,622

Mortgage Banking Loan Administration Summary Years ended December 31	1987	1986	1985
		(in millions)	
Beginning Servicing Portfolio	$ 3,138	$ 2,928	$ 2,665
New Loans:			
Residential	567	670	317
Commercial	50	80	41
	617	750	358
Acquired with National Fidelity	—	32	133
Run-off	(509)	(572)	(228)
Ending Servicing Portfolio	$ 3,246	$ 3,138	$ 2,928
Servicing Portfolio Growth	3.4%	7.2%	9.9%
Run-off Factor	16.2%	19.5%	8.6%

Land Development and Income Properties

This segment of Financial Services, operated as Temple-Inland Properties, consists of ten active residential subdivisions in Texas, adjoining commercial acreage, one commercial land project in Dallas, Texas and several commercial buildings. The depressed Texas economy resulted in soft real estate markets and declining profitability during 1987 from this segment of the Company's business.

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Typically, Temple-Inland Properties has taken the position of a financial partner in various joint ventures which are accounted for by the equity method, serving as the financial partner of a homebuilder or landowner who will be the primary constructor. Residential construction sagged in most of our markets. Lots sold totaled 131 in 1987 compared to 675 and 561 in 1986 and 1985, respectively. At year-end 1987, the completed inventory of residential lots was 521 and undeveloped acreage was 2,203 compared with 340 lots and 2,427 acres in 1986 and 343 lots and 1,644 acres in 1985. At year-end 1987, the total commercial acreage in inventory was 44 compared with 36 and 40 in 1986 and 1985, respectively.

Progress continued on the development of a 2,148-acre tract in San Antonio, Texas, an area which has remained stronger than other markets in the state of Texas. The first property should be available for sale in 1988.

Selected financial information related to these activities is shown below.

Temple-Inland Properties Operations Summary Years ended December 31	1987	1986	1985
		(in thousands)	
Revenues:			
Residential	$ 1,176	$5,438	$ 5,407
Commercial	3,528	4,219	9,058
	$ 4,704	$9,657	$14,465
Income Before Taxes:			
Residential	$(1,327)	$1,308	$ 3,107
Commercial	(368)	2,023	5,009
	$(1,695)	$3,331	$ 8,116

Shown below is Temple-Inland Properties pro rata share of the assets, liabilities and equity of joint ventures in which it is a partner.

Temple-Inland Properties Investment in Joint Ventures As of December 31	1987	1986	1985
		(in thousands)	
Assets	$83,228	$80,211	$62,192
Liabilities (a)	$80,657	$75,146	$56,749
Equity	2,571	5,065	5,443
	$83,228	$80,211	$62,192

(a) Although the Company's pro rata share of joint venture liabilities total $80.7 million, the joint venture partners are in most instances jointly and severally liable for notes payable. The gross balance of these notes was $145.3 million at December 31, 1987. Where a venture partner is jointly and severally liable for notes payable, the partner also has rights against the other partners' interest in joint venture assets if payments above the normal partnership percentage are required.

Agency Insurance

The one segment in Temple-Inland Financial Services which has performed at levels comparable to prior years is the agency insurance business. This business, a natural extension of the mortgage banking operations, is operated as a general agency providing insurance sales to homeowners as well as technical expertise and advice to a broad spectrum of retail and commercial clients. In addition, the agency insurance operation also includes the placement of significant reinsurance for the Company.

A summary of the revenues and income before taxes for the years 1987, 1986 and 1985 is shown below.

Agency Insurance Operations Summary Years ended December 31	1987	1986	1985
		(in thousands)	
Revenues	$4,069	$3,952	$3,502
Income before taxes	1,543	1,366	937

Life Insurance

The life insurance operations of Temple-Inland Financial Services include Great American Reserve Insurance Company ("GARCO"), headquartered in Dallas, Texas, and National Fidelity Life Insurance Company ("NFL"), heretofore headquartered in Overland Park, Kansas. GARCO writes life, annuity and health policies on a national scope. NFL's primary concentration is life insurance through the brokerage market with a selected specialization in impaired risk. Both GARCO and NFL sell insurance products through career agents and brokers, some of whom represent other companies.

GARCO enjoys a substantial expertise and increasing presence in the market focusing on sales to schoolteachers and administrators.

Both GARCO and NFL maintain an investment portfolio to back up the reserves established for policy claims. Over 87% of GARCO's and NFL's investment portfolios is invested in fixed income securities, consisting of marketable bonds, mortgages and short-term securities. The average maturity of the long-term investments at the end of the year was approximately 17 years. Profits of $15.4 million were realized in 1987 from gains in this investment portfolio compared to $18.6 million in 1986.

From an accounting standpoint, the acquisitions of GARCO and NFL and other insurance subsidiaries have been accounted for as purchases. The unamortized balance of the excess cost over the fair market value of assets acquired was $26.8 million as of year end 1987 compared to $27.5 million as of year end 1986. This excess is being amortized on a straight-line basis over 40 years.

Following completion of the combination of their data processing systems as a part of the consolidation and cost savings anticipated with the purchase of NFL in 1985, GARCO and NFL continue to plan toward additional consolidations and cost savings by utilizing the strengths of each of the two companies for the benefit of both companies.

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In December 1987, the Company made the decision to relocate its NFL headquarters from Overland Park, Kansas to the GARCO office building in Dallas, Texas. Sharing the same offices will allow greater economies to be achieved in a number of key areas. The move, including costs associated with holding or releasing the office building in Overland Park, is estimated to cost $4.5 million, a liability which was recorded in the fourth quarter of 1987.

During 1987, adverse claims, particularly in the health insurance segments of the Companies' business, were $6.4 million higher than anticipated. The Company continues to focus on its future in certain health insurance lines. Also during 1987, the Company wrote off approximately $5.6 million associated with a single block of business in the NFL product line. This block of business, minimum deposit life insurance contracts, was negatively impacted by changes in the tax law, and a decision was made that costs associated with the complete block should be written off.

Shown below are condensed, consolidated statements of income and balance sheets of the insurance operations for the years 1987, 1986 and 1985 together with a summary of the life insurance in force for the two companies.

Life Insurance
Condensed Consolidated Statements of Income

Years ended December 31	1987	1986	1985
		(in thousands)	
Revenues	$ 296,806	$ 299,276	$191,814
Expenses:			
Insurance policy benefits & commissions	240,287	239,451	155,030
Operating and administrative expenses	42,652	28,022	20,886
Total expenses	282,939	267,473	175,916
Income before taxes	13,867	31,803	15,898
Taxes on income	5,529	10,173	5,405
Net income	$ 8,338	$ 21,630	$ 10,493

Life Insurance
Condensed Consolidated Balance Sheets

As of December 31	1987	1986	1985
		(in thousands)	
Assets			
Cash and investments	$ 908,139	$ 848,685	$657,272
Deferred acquisition costs	75,365	79,969	71,901
Other assets	121,149	119,653	68,891
Total assets	$1,104,653	$1,048,307	$798,064
Liabilities and Equity			
Future policy benefits	$ 831,347	$ 766,178	$566,469
Other liabilities	95,874	96,896	56,958
Equity	177,432	185,233	174,637
Total liabilities and equity	$1,104,653	$1,048,307	$798,064

Life Insurance
Life Insurance and Annuities in Force

As of December 31	1987	1986	1985
		(in millions)	
Life insurance	$ 8,172	$ 9,700	$ 8,800
Annuity reserves	508	445	300

Additional Comments Regarding Results of Operations and Financial Condition

The Company's financial condition continues to be strong. Internally generated funds and the capacity to issue long-term debt are sufficient to fund expected capital expenditures, to service existing debt, to pay dividends, to repurchase shares of stock under authorized repurchase programs and to meet normal working capital requirements.

The level of capital expenditures is now anticipated to be in the $240 million range in 1988. Major projects for 1988 will include continuation of a modernization program at the Company's Orange, Texas linerboard mill and continued work on a modernization program at the Company's linerboard mill in Rome, Georgia, which had heretofore been operated as a part of Georgia Kraft Company. A summary of the capital expenditures is shown below.

	1987	1986	1985
Capital Expenditures		(in millions)	
Container and containerboard	$ 68.2	$ 42.8	$102.0
Pulp and paperboard	22.1	27.5	42.9
Building products	38.1	23.9	29.7
Timber and timberlands	8.9	8.0	7.2
Other activities	.8	.4	1.9
Total	$138.1	$102.6	$183.7

Interest expense incurred, net of interest income and capitalized interest, is shown below.

	1987	1986	1985
Interest—Net		(in thousands)	
Interest expense	$(27,808)	$(22,972)	$(19,619)
Interest income	3,346	6,895	11,523
Capitalized interest	4,203	3,079	9,323
Interest (expense) income—net	$(20,259)	$(12,998)	$ 1,227

The high level of capitalized interest during 1985 was primarily attributable to major construction projects. In 1986, these projects became operational and interest was no longer capitalized. The level of capital expenditures was up in 1987 versus 1986, resulting in increased capitalized interest. In addition, interest expense increased in 1986 and 1987 due to the Company's borrowings of $140 million in 1986 to fund a portion of the purchase price paid for assets acquired from Owens-Illinois.

The Company's liquidity was and will continue to be affected by the Tax Reform Act of 1986 ("the Act"). The effect in 1986 and 1987 was to reduce cash flow compared with previous years due to the repeal of the investment tax credit in 1986 and the increase in the tax rate for capital gains in 1987. The Company expects an overall decrease in future cash flow from operations as a net result of the combination of lower tax rates, repeal of investment tax credit, increase in capital gains rates and other provisions of the Act.

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Because the Company accounts for investment tax credits using the deferred method, the 1987 year-end balance of deferred tax credits will be amortized as a reduction of income tax expense over the estimated useful life of the related asset. In 1987, $6.6 million in investment tax credits were amortized, compared to $6.8 million in 1986 and $6.3 million in 1985.

See Note B of Notes to Consolidated Financial Statements for a discussion of the future impact of full consolidation on Temple-Inland.

See Note G of Notes to Consolidated Financial Statements for a discussion of the future impact of new accounting rules for income taxes.

The following table provides selected data for the periods indicated.

During the fourth quarter of 1987, the Company purchased approximately 2.6 million shares of treasury stock for approximately $110 million. The purchase of treasury stock reduced the weighted average shares outstanding for the fourth quarter to approximately 28.4 million compared to 30.2 million for the year. The effect on earnings per share was reduced by the increased interest expense related to reduced investments and increased borrowings used to purchase treasury stock.

Five Year Selected Financial Data

For the Year (in millions)	**1987**	1986	1985	1984	Pre-Spinoff Data† 1983
Net sales	**$ 1,603**	$ 1,296	$ 1,243	$ 1,263	$ 1,176
Net income	**141**	81	85	103	48
Capital expenditures	**138**	103	184	130	53
Depreciation, amortization and depletion	**94**	79	66	63	64
Earnings per share	**4.69**	2.64	2.80	3.39	1.59
Dividends per common share	**.69**	.58	.51	.40	N/A
Average shares outstanding (in thousands)	**30,162**	30,566	30,390	30,300	30,281
Common shares outstanding at year end (in thousands)	**27,669**	30,347	30,229	30,152	30,092
At Year End (in millions)					
Total assets	**$ 1,798**	$ 1,701	$ 1,469	$ 1,364	$ 1,209
Working capital	**146**	131	164	175	136
Long-term debt	**416**	366	248	251	209
Shareholders' equity	**927**	929	864	793	701

†For 1983, the table reflects the combined historical amounts of the former subsidiaries of Time Inc. that now form Temple-Inland Inc.

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Consolidated Statements of Income

Temple-Inland Inc. and Subsidiaries
For the year

	1987	1986	1985
		(in thousands)	
Revenues			
Net sales	**$1,602,694**	$1,295,807	$1,243,125
Financial services earnings—Note B	**7,621**	33,034	25,316
	1,610,315	1,328,841	1,268,441
Costs and Expenses			
Cost of sales	**1,237,003**	1,090,821	1,036,535
Selling and administrative	**136,779**	119,852	120,295
	1,373,782	1,210,673	1,156,830
Operating Income	**236,533**	118,168	111,611
Interest—net—Note D	**(20,259)**	(12,998)	1,227
Other—Note L	**4,134**	8,133	14,752
Income Before Taxes	**220,408**	113,303	127,590
Taxes on income—Note G	**79,000**	32,500	42,500
Net Income	**$ 141,408**	$ 80,803	$ 85,090
Earnings per share—Note A	**$ 4.69**	$ 2.64	$ 2.80

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Consolidated Balance Sheets

Temple-Inland Inc. and Subsidiaries
At year end

	1987	1986
	(in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 19,103	$ 50,987
Receivables, less allowances of $5,438,000 in 1987 and $3,904,000 in 1986	176,357	151,287
Inventories:		
Work in process and finished goods	44,664	43,333
Raw materials	101,113	72,908
	145,777	116,241
Prepaid expenses	21,723	12,789
Total Current Assets	362,960	331,304
Investments—Note B		
Financial services subsidiaries	65,033	60,134
Other unconsolidated subsidiaries	8,977	8,908
Other investments	8,841	6,951
Total Investments	82,851	75,993
Property and Equipment—Note D		
Buildings	211,777	182,088
Machinery and equipment	1,458,364	1,078,090
Less allowances for depreciation and amortization	(789,553)	(560,877)
	880,588	699,301
Construction in progress	69,798	42,581
Construction funds held by trustee	4,843	178
	955,229	742,060
Timber and timberlands—less depletion	364,870	214,919
Georgia Kraft Company—Note L	—	309,231
Land	20,262	18,346
Total Property and Equipment	1,340,361	1,284,556
Other Assets	11,803	8,769
TOTAL ASSETS	$1,797,975	$1,700,622

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	1987	1986
	(in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued expenses	**$ 192,300**	$ 117,728
Due to Georgia Kraft Company	**—**	66,589
Employee compensation and benefits	**20,218**	12,267
Current portion of long-term debt	**4,075**	3,320
Total Current Liabilities	**216,593**	199,904
Long-Term Debt—Note D	**416,066**	365,513
Deferred Investment Tax Credits—Note G	**32,301**	36,607
Deferred Federal Income Taxes—Note G	**192,925**	150,093
Other Liabilities	**12,605**	19,641
Shareholders' Equity		
Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued	**—**	—
Common stock—par value $1 per share: authorized 100,000,000 shares; issued 30,614,830 shares in 1987 and 30,348,030 shares in 1986, including shares held in the treasury	**30,615**	24,278
Additional paid-in capital	**331,974**	329,713
Retained earnings	**695,721**	574,928
	1,058,310	928,919
Cost of shares held in the treasury: 2,945,758 shares in 1987; 1,201 shares in 1986	**(130,825)**	(55)
	927,485	928,864
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,797,975**	$1,700,622

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Consolidated Statements of Shareholders' Equity

Temple-Inland Inc. and Subsidiaries	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
		(in thousands)		
Balance at January 1, 1985	$ 24,136	$326,997	$441,962	$ (431)
Net income	—	—	85,090	—
Dividends paid on Common Stock— $.51 per share	—	—	(15,466)	—
Stock issued for stock option and restricted stock plans	48	982	—	—
Stock reacquired for treasury— 9,726 shares at cost	—	—	—	(278)
Stock reissued from treasury— 25,835 shares at cost	—	—	—	665
Balance at December 31, 1985	$ 24,184	$327,979	$511,586	$ (44)
Net income	—	—	80,803	—
Dividends paid on Common Stock— $.58 per share	—	—	(17,461)	—
Stock issued for stock option and restricted stock plans	94	1,734	—	—
Stock reacquired for treasury— 32,458 shares at cost	—	—	—	(1,235)
Stock reissued from treasury— 32,914 shares at cost	—	—	—	1,224
Balance at January 3, 1987	$ 24,278	$329,713	$574,928	$ (55)
Net income	—	—	$141,408	—
Dividends paid on Common Stock— $.69 per share	—	—	(20,615)	—
Stock issued for stock option and restricted stock plans	254	8,542	—	—
Stock reacquired for treasury— 2,987,464 shares at cost	—	—	—	(133,312)
Stock reissued from treasury— 42,906 shares at cost	—	—	—	2,542
Effect of five-for-four stock split	6,083	(6,083)	—	—
Stock split—cash for fractional shares	—	(198)	—	—
Balance at January 2, 1988	$ 30,615	$331,974	$695,721	$(130,825)

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Consolidated Statements of Changes in Financial Position

Temple-Inland Inc. and Subsidiaries For the year	1987	1986	1985
		(in thousands)	
Working Capital Sources			
Net income	**$141,408**	$ 80,803	$ 85,090
Items not affecting working capital:			
Depreciation, amortization and depletion	**93,891**	79,111	66,445
Amortization of intangibles	**246**	208	208
Deferred taxes and deferred tax credits	**9,666**	12,112	30,915
Unremitted earnings of affiliated companies	**(5,910)**	(27,333)	(20,971)
Total From Operations	**239,301**	144,901	161,687
Disposition of property and equipment	**4,166**	2,189	12,182
Decrease in construction funds held by trustees	**178**	15,881	19,735
Issuance of long-term debt	**70,248**	194,490	—
Change in other assets and liabilities	**(11,029)**	(878)	9,048
Issuance of common stock	**11,140**	3,052	1,695
Other	**1,288**	712	1,401
Transfer of Georgia Kraft Company	**64,915**	—	—
Total Working Capital Sources	**380,207**	360,347	205,748
Working Capital Uses			
Capital expenditures	**138,139**	102,646	183,688
Purchase of non-current assets from Owens-Illinois, Inc.	**—**	204,775	—
Dividends paid to shareholders	**20,615**	17,461	15,466
Investments in affiliated companies	**2,270**	(10,000)	13,573
Purchases of treasury stock	**133,312**	1,235	278
Reduction of long-term debt	**70,904**	76,532	3,558
Total Working Capital Uses	**365,240**	392,649	216,563
Increase (Decrease) in Working Capital	**$ 14,967**	$ (32,302)	$ (10,815)
Changes in Working Capital			
Cash	**$ (54,821)**	$ (31,503)	$ 406
Receivables	**19,713**	19,384	5,740
Inventories	**12,853**	20,953	(13,573)
Prepaid expenses	**7,196**	(6,211)	(4,235)
Accounts payable and accrued expenses	**(15,093)**	(32,812)	2,589
Due to Georgia Kraft Company	**4,591**	(2,166)	(2,053)
Current portion of long-term debt	**(231)**	53	311
Working capital of Georgia Kraft Company	**40,759**	—	—
Net Change in Working Capital	**$ 14,967**	$ (32,302)	$ (10,815)

See the notes to the consolidated financial statements.

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Note A—Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Temple-Inland Inc. (the "Company") and its subsidiaries (except unconsolidated mortgage banking, insurance and real estate investment subsidiaries). Unconsolidated subsidiaries and companies 20% to 50% owned are reflected in the financial statements on the equity basis. All material intercompany amounts and transactions have been eliminated.

See Note B for a discussion of the future impact of full consolidation.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest December 31. Accordingly, the 1987 accounting year ended on January 2, 1988. The unconsolidated financial services group is on a calendar year.

Inventories

Inventories are stated at the lower of cost or market.

Cost of inventories amounting to $62.1 million in 1987 and $54.2 million in 1986 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories of $83.7 million in 1987 and $62.0 in 1986 was determined principally by the first-in, first-out method (FIFO).

If the FIFO method of accounting had been applied to those inventories which were costed on the LIFO method, inventories would have been $22.9 and $16.8 million higher than reported at year end 1987 and 1986, respectively.

Property and Equipment

Property and equipment are stated at cost less allowances for accumulated depreciation and depletion. Depreciation is generally provided on the straight-line method based on estimated useful lives of the assets. Certain properties are being depreciated based on operating hours because they depreciate primarily through use rather than merely through elapsed time.

Timberlands, including long-term timber harvesting rights, are stated at cost, less accumulated cost of timber harvested. The portion of the cost of timberlands attributed to standing timber is charged against income as timber is cut, at rates determined annually, based on the relationship of unamortized timber costs to the estimated volume of the recoverable timber. The costs of seedlings and reforestation of timberlands are capitalized.

Earnings Per Share

Earnings per share are based upon the weighted average number of shares outstanding, including common stock equivalents, during the period. The weighted average shares outstanding was 30,162,000 in 1987, 30,566,000 in 1986 and 30,390,000 in 1985.

Note B—Investments in Affiliated Companies

The Company's unconsolidated financial services operations are conducted as Temple-Inland Financial Services and include mortgage banking, real estate development and insurance activities. Refer to "Selected Segment Information" on page 26, "Condensed Consolidated Statements of Income" and "Condensed Consolidated Balance Sheets" on page 29 for summarized financial information for these wholly-owned unconsolidated subsidiaries.

The Company's share in the net income of all unconsolidated subsidiaries and 20-50% owned affiliates amounted to $5.9 million, $36.4 million and $33.2 million for the years 1987, 1986 and 1985, respectively. Dividends received from such subsidiaries and affiliates amounted to $50,000, $19.1 million and $12.2 million for the years 1987, 1986 and 1985, respectively.

The Financial Accounting Standards Board has issued Statement No. 94, "Consolidation of All Majority-Owned Subsidiaries." The Company intends to adopt the new guidelines as of and for the year ending December 31, 1988. At that time, the prior year's financial statements will be restated. As a result, the unconsolidated financial services subsidiaries will be consolidated with the Company's manufacturing businesses. Adoption of the guidelines will have no effect on the Company's consolidated shareholders' equity or net income and is not expected to have a significant effect on liquidity or capital resources.

Note C—Leases

Total rental expense was $10.3 million, $9.6 million and $8.7 million for the years 1987, 1986 and 1985, respectively.

The future minimum rental commitments, as of year end 1987, under non-cancellable operating leases were as follows: 1988—$6.6 million; 1989—$5.4 million; 1990—$3.5 million; 1991—$2.2 million; and 1992—$1.1 million.

In addition, the future minimum commitments, as of year end 1987, for contracts to lease or manage land to grow and harvest timber through the year 2027 are as follows: 1988—$2.0 million; 1989—$1.9 million; 1990—$1.9 million; 1991—$1.9 million; and 1992—$1.9 million.

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Note D—Long-Term Debt

Long-term debt consists of the following:

	1987	1986
	(in thousands)	
Bank Loans—Weighted average interest rate during 1987 was 7.64%	**$205,000**	$200,000
8.375% Notes Payable due 1996	**70,000**	70,000
Revenue Bonds due 2014—Average interest rate during 1987 was 5.86%	**34,500**	34,800
12.5% Note Payable due 1989	**25,000**	—
8% Revenue Bonds due through 2009	**11,665**	—
7.9% Promissory Notes due through 1994	**9,720**	11,280
Revenue Bonds due 2007—Effective interest rate during 1987 was 8.58%	**9,300**	9,300
Revenue Bonds due 2008—Effective interest rate during 1987 was 8.49%	**8,900**	8,900
9% Tax Exempt Pollution Control Bonds due 2012	**7,350**	9,400
Revenue Bonds due 2015—Effective interest rate during 1987 was 7.43%	**5,250**	—
Revenue Bonds due 2009—Average interest rate during 1987 was 5.10%	**5,200**	5,200
9.5% Subordinated Debentures through 1995	**4,900**	5,600
8.125% Revenue Bonds due through 2000	**4,735**	—
6.75% Revenue Bonds due 2009	**3,500**	—
Other Revenue Bonds due through 2008, weighted average interest rate of 6.72% and 6.66% as of year end 1987 and 1986, respectively	**5,349**	5,024
Other indebtedness due through 2000, weighted average interest rate of 9.70% and 9.61% as of year end 1987 and 1986, respectively	**5,697**	6,009
	$416,066	$365,513

At January 2, 1988, $150 million of the Company's bank loans were in the form of unsecured notes or drafts growing out of transactions involving the domestic shipment of goods, drawn on unsecured Banker's Acceptance lines with various banks. These borrowings, as well as $55 million of loans in the form of unsecured open advance notes drawn on various banks, are supported by long-term revolving credit agreements and accordingly are classified as long-term debt.

Under one agreement, the Company may borrow up to $80 million, repayable in September 1989, with interest at a rate which, at the option of the Company, may be based on various floating rates. Under a second agreement, borrowings of up to $165 million, repayable in January 1989, are available to the Company at similar floating rates of interest.

To offset a portion of the floating rate characteristic of the Company's bank borrowings, the Company negotiated four interest rate conversion agreements for an aggregate amount of $120 million. Under these agreements, the Company is required to pay interest at fixed rates averaging 8.09%. In return, the Company will receive interest payments on the same declining principal balances calculated at the 30-day commercial paper rate. These agreements expire as follows: $30 million in 1988, $70 million in 1989 and $20 million in 1990.

At year end 1987, consolidated net current assets were approximately $96 million in excess of the minimum requirements under the most restrictive provisions of the Company's loan agreements and approximately $304 million of consolidated retained income was unrestricted as to the payment of dividends. At year end 1987, property and equipment of approximately $21 million was subject to liens in connection with $29 million of debt.

Aggregate maturities of long-term debt during the next five years are as follows (in millions): 1988—$4.1; 1989—$233.4; 1990—$3.4; 1991—$3.1; 1992—$3.6. It is the Company's current intention to extend maturities by refinancing and renewing the long-term revolving credit agreements upon maturity.

For an analysis of net interest expense, see page 29.

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Note E—Stock Option and Purchase Plans

On October 6, 1983, the Company established a stock option plan for key employees. The plan provides for the granting of incentive stock options and/or non-qualified stock options, and permits the grant of stock appreciation rights with all or part of any options so granted.

Options for 550,011, 556,511 and 590,015 shares were exercisable at year end 1987, 1986 and 1985, respectively. An additional 342,449, 427,586 and 939,256 shares of the Company's common stock were available for grants at year end 1987, 1986 and 1985, respectively.

A summary of activity under the option plans is presented below:

	Common Stock	
	Number of Shares	Price Range Per Share
Outstanding at January 1, 1985	734,347	$ 7-$29
Granted	194,240	$30
Exercised	(63,747)	$10-$25
Forfeited	(10,339)	$25-$30
Outstanding at December 31, 1985	854,501	$ 7-$30
Granted	519,529	$38-$45
Exercised	(139,539)	$ 7-$30
Forfeited	(7,857)	$25-$38
Outstanding at January 3, 1987	1,226,634	$ 8-$45
Granted	97,294	$44-$64
Exercised	(286,273)	$ 8-$38
Forfeited	(12,157)	$25-$45
Outstanding at January 2, 1988	1,025,498	$ 8-$64

Additionally, an Incentive Stock Plan provides for a maximum of 312,500 shares of common stock to be reserved for awards at the discretion of the Board of Directors. At year end 1987, awards of 119,644 shares of common stock were outstanding at an average price of $35.65 per share.

The Company has Savings and Stock Purchase Plans which permit participating employees to invest in the Company's common stock and other funds.

Compensation expense associated with stock option and award plans totaled $1.8, $2.4 and $1.6 million in 1987, 1986 and 1985, respectively.

On February 5, 1988, options to purchase 39,660 shares of stock at a price of $43.31 per share were granted, and 14,507 shares were awarded under the Incentive Stock Plan.

Note F—Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries have several pension plans covering substantially all employees. Plans covering salaried and non-union hourly employees provide benefits based on compensation and years of service, while union hourly plans are based on negotiated benefits and years of service. The Company's policy is to fund amounts as are necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of ERISA.

In 1986, the Company elected early adoption of FASB Statement No. 87, "Employer's Accounting for Pensions". The effect of this adoption was to reduce 1986 pension cost by approximately $11 million. Pension expense and related information for the years before 1986 have not been retroactively restated.

A summary of the components of net pension cost in 1987 and 1986 follows:

	1987	1986
Charges (credits)	(in millions)	
Service cost—benefits earned during the period	$ 6.1	$ 5.9
Interest cost on projected benefit obligation	13.6	12.4
Actual return on plan assets	(7.7)	(21.7)
Net amortization and deferral	(14.6)	.7
Special termination benefit cost	—	.6
Net Pension Credit	$ (2.6)	$ (2.1)

Total pension expense was $8.7 million in 1985, which amount includes amortization of past service cost over periods ranging from 10 to 30 years.

The actuarial computations for 1987 and 1986 assumed a discount rate on benefit obligations of 9%, an expected long-term rate of return on plan assets of 9% and annual salary/benefit increases of 5% to 6% over the average remaining service lives of employees covered by the plans.

The status of employee pension benefit plans at year end 1987 and 1986 is summarized below:

	1987	1986
	(in millions)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 117.8	$ 105.8
Nonvested benefits	13.2	12.0
Accumulated benefit obligation	$ 131.0	$ 117.8
Projected benefit obligation for service rendered to date	$ (169.2)	$ (154.2)
Plan assets at fair value, primarily fixed income securities	210.4	207.4
Plan assets in excess of projected benefit obligation	41.2	53.2
Prior service cost not yet recognized in net periodic pension cost	.2	—
Unrecognized net gain from past experience different from that assumed	10.0	(2.1)
Unrecognized net asset at January 1, 1986, less amortization to date	(50.7)	(55.2)
Net pension asset (liability) included in the balance sheet	$ .7	$ (4.1)

The assets of the plans at December 31, 1987 include 190,500 shares of common stock of the Company having a market value of $9.2 million at that date.

The Company's share of the fair market value of assets ($37.8 million) to be transferred from the Georgia Kraft pension plans exceeded the assumed projected benefit obligation by $6.9 million. In 1987, Georgia Kraft recorded approximately $128,000 of pension expense relating to the transferred employees.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits if they reach retirement age while employed for the Company. The Company recognizes the cost of providing the benefits by expensing the insurance premiums as incurred. These costs totaled approximately $1.2, $1.1, and $.9 million in 1987, 1986 and 1985, respectively.

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Note G—Taxes on Income

Taxes on income consisted of the following:

	Current	Deferred
	(in thousands)	
1987		
Federal	**$59,269**	**$17,315**
Investment tax credit deferred	**—**	**(3,744)**
State and other	**6,440**	**(280)**
	$65,709	**$13,291**
1986		
Federal	$ 16,417	$ 15,762
Investment tax credit deferred	—	(1,795)
State and other	2,116	—
	$ 18,533	$ 13,967
1985		
Federal	$ (1,568)	$ 26,029
Investment tax credit deferred	—	13,685
State and other	4,354	—
	$ 2,786	$ 39,714

The provision for deferred income taxes reflects timing differences between financial and tax reporting related to the following items:

	1987	1986	1985
		(in thousands)	
Depreciation	**$11,318**	$18,291	$19,786
Investment tax credits	**(3,744)**	(1,795)	13,685
Pension expense	**3,248**	2,382	(2,798)
Contribution to employee benefit trust	**—**	(6,745)	(1,075)
Capitalized interest	**1,683**	1,503	4,098
Insurance operations	**2,561**	4,459	4,905
Other—net	**(1,775)**	(4,128)	1,113
	$13,291	$13,967	$39,714

The differences between the consolidated effective income tax rate and the federal statutory income tax rates include the following:

	1987	1986	1985
		(in thousands)	
Taxes on income at statutory rate	**$88,163**	$52,120	$58,691
Investment tax credits	**(6,643)**	(7,544)	(7,903)
Tax benefit of capital gains	**(2,901)**	(7,635)	(8,368)
Insurance operations taxed at special rates	**(18)**	(4,442)	(1,704)
All other	**399**	1	1,784
	$79,000	$32,500	$42,500

The Company's share of Georgia Kraft's tax benefit of capital gains totaled $.4 million, $1.9 million and $2.1 million for 1987, 1986 and 1985, respectively.

Investment tax credits are deferred and amortized as a reduction of income tax expense over the estimated useful lives of the related assets except for Georgia Kraft which historically recorded such credits as reductions in current income tax expense on a flow-through basis, of which the Company's share totaled $.8 million in 1986 and $1.6 million in 1985.

The Company's equity in the earnings of 20-50% owned affiliates is reinvested; accordingly, no provision for income taxes is made on the undistributed earnings.

On December 30, 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes." Under the new guidelines, companies are required to adopt the new methods for accounting for income taxes no later than 1989. The Company has not completed all of the complex analyses required by the new Statement. However, the Company presently expects to adopt the Statement in 1989 and does not expect to restate any periods. The adoption of the new guidelines is not expected to have an adverse impact on the Company's financial position.

Note H—Business Segment Information

Refer to "Business Segments" on page 23 for information relating to Net Sales and Income Before Taxes and page 29 for information relating to Capital Expenditures for the Company's principal segments of business for the three years 1987, 1986 and 1985.

Additional business segment information is presented below.

For the year	**1987**	1986	1985
		(in millions)	
Identifiable Assets			
Container and containerboard (1)	**$ 841.7**	$ 901.5	$ 741.1
Pulp and paperboard	**252.0**	255.3	257.0
Building products	**209.4**	183.2	172.3
Timber and timberlands	**376.7**	220.7	104.0
Other activities	**9.3**	9.8	9.1
Total	**1,689.1**	1,570.5	1,283.5
Equity method investments	**82.4**	75.4	72.4
Corporate (2)	**26.5**	54.7	113.4
Total	**$1,798.0**	$1,700.6	$1,469.3
Depreciation, Amortization and Depletion			
Container and containerboard	**$ 34.9**	$ 30.0	$ 21.0
Pulp and paperboard	**30.0**	29.7	28.4
Building products	**16.9**	14.4	13.5
Timber and timberlands	**11.2**	3.9	3.0
Other activities	**.9**	1.1	.5
Total	**$ 93.9**	$ 79.1	$ 66.4

(1) For 1986 and 1985, includes the Company's 50% investment in Georgia Kraft Company. See Note L.
(2) Principally cash and construction funds held by trustees.

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Note I—Commitments and Contingencies

There are pending against the Company and its subsidiaries lawsuits and claims arising in the regular course of business.

In the opinion of management, recoveries, if any, by plaintiffs or claimants that may result from the foregoing litigation and claims will not be material in relation to the consolidated financial position of the Company and its subsidiaries.

Note J—Acquisitions

On December 31, 1987, the Company, through Temple-Inland Financial Services, acquired all of the outstanding common stock of Kilgore Federal Savings and Loan ("Kilgore"), Kilgore, Texas, for approximately $10 million. At the date of acquisition, Kilgore had total assets of approximately $90 million.

On July 1, 1986, the Company purchased from Owens-Illinois, Inc. ("O-I") for approximately $105 million, a linerboard mill in Orange, Texas, three box plants in Tracy, California, Minden, Louisiana and Minneapolis, Minnesota, and all of the outstanding capital stock of a short-line railroad which serves the Orange, Texas linerboard mill. Also, on September 30, 1986, the Company finalized the purchase of approximately 260,000 acres of timberlands located in Texas and Louisiana, and certain mineral interests owned or leased by O-I in Texas and Louisiana for $115 million.

On May 15, 1986, Temple-Inland Financial Services acquired the annuity business of Voyager Life Insurance Company ("Voyager") for approximately $10 million and effective July 1, 1985, all of the outstanding shares of National Fidelity Life Insurance Company ("NFL") for $82 million.

These acquisitions have been accounted for as purchases and the results of operations have been included from the dates of acquisition. Pro forma results of the Company's operations, assuming the O-I acquisition had occurred at the beginning of 1985, are shown in the following table.

For the year	1986	1985
O-I (pro forma effect)	(in millions, except per share data) (Unaudited)	
Net sales	$1,397	$1,424
Net income	77	62
Earnings per share	2.52	2.04

The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisition been made at the beginning of 1985, or of results which may occur in the future.

Information regarding the pro forma effect of the Kilgore, NFL and Voyager acquisitions on the Company, for periods prior to the acquisition date, would not be materially different from the historical amounts as reported.

Note K—Summary of Quarterly Results of Operations (Unaudited)

Selected quarterly financial results for the years 1987 and 1986 are summarized below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions except per share amounts)			
1987				
Net Sales	**$390.6**	**$395.1**	**$419.1**	**$397.9**
Gross Profit	**83.1**	**88.3**	**94.4**	**99.9**
Net Income	**33.7**	**35.8**	**38.2**	**33.7***
Earnings Per Share	**1.09**	**1.17**	**1.24**	**1.19**
1986				
Net Sales	$292.7	$313.5	$333.8	$355.8
Gross Profit	34.4	49.7	54.2	66.7
Net Income	13.6	19.3	20.1	27.8
Earnings Per Share	.45	.63	.66	.90

*Includes fourth quarter pre-tax provision of $4.5 million related to the relocation of NFL.

Note L—Georgia Kraft Company Dissolution

During 1987, the Company announced and completed the division of assets of its 50% owned affiliate Georgia Kraft Company ("Georgia Kraft"). Prior to the division, Georgia Kraft sold the linerboard mill at Macon, Georgia, along with the plywood complex at Madison, Georgia, and approximately 220,000 acres of timberland. Effective January 4, 1988, the Company and The Mead Corporation ("Mead") divided the remaining assets of Georgia Kraft. As a result of the division, the Company acquired ownership of a 2,000 ton per day linerboard mill and a sawmill at Rome, Georgia, and approximately 500,000 acres of timberlands, which includes approximately 100,000 acres of long-term leased lands.

The division of Georgia Kraft has been reflected in the Company's consolidated balance sheet as of January 2, 1988. Accordingly, the Company's equity in the net assets of Georgia Kraft was eliminated and the assets and liabilities attributable to the interests obtained by the Company have been consolidated with the Company's assets and liabilities.

Included in other income, on an after-tax basis, is the Company's 50% share of the net gain on the sale of the Macon mill and related assets as recorded by Georgia Kraft before the division of assets. The $34 million after-tax gain has been reduced by purchase accounting adjustments applicable to the Company's investment in Georgia Kraft and costs associated with the restructuring. The net after-tax gain amounted to approximately $1 million.

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Prior to January 2, 1988, the Company's 50% investment in Georgia Kraft was accounted for by the equity method and was classified as property and equipment since the underlying net assets were primarily mill operating properties and timberlands, which were a major source of the Company's linerboard raw material requirements. Likewise, equity in operating income of Georgia Kraft was recorded as a reduction of cost of sales and its share of related income taxes was included in taxes on income.

Prior to the division of assets, the Company and Mead were each obligated to purchase the output of one-half of the production time of Georgia Kraft. Such purchases were at prices which provided Georgia Kraft with a recovery of all costs and expenses, including depreciation claimed for tax purposes but excluding federal income taxes. Purchases from Georgia Kraft were $149.0 million in 1987, $163.3 million in 1986 and $181.3 million in 1985.

For 1987, Georgia Kraft had total revenues of $511.0 million, and its net income, which included an after-tax gain of $67.3 million on the sale of the Macon assets, totalled $87.1 million.

Summary financial information for Georgia Kraft for 1986 and 1985 is as follows:

	1986	1985
	(in thousands)	
Total revenues	$557,428	$557,033
Income before taxes	41,842	46,474
Net income	27,577	31,764
Current assets	142,862	137,169
Noncurrent assets	554,115	522,590
Current liabilities	64,522	58,665
Noncurrent liabilities	221,551	217,768

A condensed consolidation of the Company and Georgia Kraft at year end 1987 follows:

At Year End 1987	Consolidated	Eliminations	Temple-Inland Inc.	Temple-Inland Share of Georgia Kraft
			(in millions)	
Assets				
Current assets	$ 363.0	$(102.0)	$ 316.2	$148.8
Investments	82.8	—	82.8	—
Property and equipment	1,340.4	(253.3)	1,334.7	259.0
Other assets	11.8	—	10.0	1.8
	$1,798.0	$(355.3)	$1,743.7	$409.6
Liabilities				
Current liabilities	$ 216.6	$(102.0)	$ 250.6	$ 68.0
Long-term debt	416.1	—	364.9	51.2
Deferred tax credits	32.3	—	32.3	—
Deferred income taxes	192.9	—	158.5	34.4
Other liabilities	12.6	—	9.9	2.7
Invested Capital	927.5	(253.3)	927.5	253.3
	$1,798.0	$(355.3)	$1,743.7	$409.6

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Report of Management

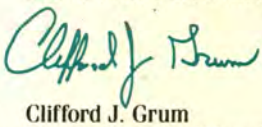
Management Report on Financial Statements

Management has prepared and is responsible for the Company's financial statements, including the notes thereto. They have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgments and estimates by management. All financial information in this annual report is consistent with that in the financial statements.

The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The design, monitoring, and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. The Company also maintains an internal auditing function which evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

The Company's financial statements have been examined by Ernst & Whinney, independent auditors, who have expressed their opinion with respect to the fairness of the presentation of the statements.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets with the independent auditors and internal auditors to evaluate the effectiveness of the work performed by them in discharging their respective responsibilities and to assure their independent and free access to the Committee.



Clifford J. Grum
President and Chief Executive Officer



Wayne McDonald
Executive Vice President and
Chief Financial Officer

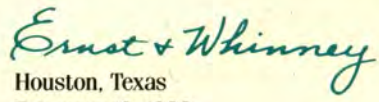
Independent Auditors' Report

Report of Ernst & Whinney, Independent Auditors

To the Board of Directors and Shareholders of Temple-Inland Inc.:

We have examined the consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of January 2, 1988 and January 3, 1987, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended January 2, 1988. 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. The financial statements of Georgia Kraft Company and Great American Reserve Insurance Company, used as a basis for recording Temple-Inland Inc.'s investment in and equity in net income of those corporations, were examined by other auditors whose reports were furnished to us. Our opinion expressed herein, insofar as it relates to the amounts of investment in and income included for Georgia Kraft Company and Great American Reserve Insurance Company, is based solely on the reports of the other auditors.

In our opinion, based upon our examinations and the reports of the other auditors, the financial statements referred to above present fairly the consolidated financial position of Temple-Inland Inc. and subsidiaries at January 2, 1988 and January 3, 1987, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended January 2, 1988, in conformity with generally accepted accounting principles consistently applied during the period except for the change in the year ended January 3, 1987, with which we concur, in the method of determining pension cost as described in Note F to the consolidated financial statements.



Houston, Texas
February 19, 1988

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Temple-Inland Inc. Board of Directors

James F. Beré (1) (2)
Chairman of the Board
Borg-Warner Corporation

Robert Cizik (2) (4)
Chairman, President and
Chief Executive Officer
Cooper Industries, Inc.

Joe C. Denman Jr. (3)
Chairman, President and
Chief Executive Officer
Temple-Eastex Incorporated

Henry C. Goodrich (2) (3) (4)
President
Richgood Corporation

Clifford J. Grum (3)
President and
Chief Executive Officer
Temple-Inland Inc.

Bobby R. Inman (1) (4)
Chairman and
Chief Executive Officer
Westmark Systems, Inc.

W. Wayne McDonald (3)
Executive Vice President and
Chief Financial Officer
Temple-Inland Inc.

James R. Shepley
Vice Chairman of the Board
Pullman-Peabody, Inc.

Walter P. Stern (1) (2) (3)
Vice Chairman of the Board
Capital Research Company

Arthur Temple (3)
Chairman of the Board
Temple-Inland Inc.

Arthur Temple III (1) (3) (4)
Chairman of the Board and
Chief Executive Officer
Exeter Investment Company

Clinton G. Ames Jr.
Director Emeritus

(1) Audit Committee
(2) Compensation Committee
(3) Executive Committee
(4) Nominating Committee

Temple-Inland Inc. Officers

Clifford J. Grum
President and
Chief Executive Officer

Arthur Temple
Chairman of the Board

Joe C. Denman Jr.
Executive Vice President

W. Wayne McDonald
Executive Vice President and
Chief Financial Officer

Ben J. Lancashire
Group Vice President

Roger D. Ericson
General Counsel and Secretary

M. Richard Warner
Treasurer

David H. Dolben
Vice President–Internal Audit

Joseph E. Tomlinson
Assistant Treasurer

James R. Wash
Assistant Secretary

Chester E. Winger
Assistant Treasurer



Left to right: **Ben J. Lancashire,** Chairman, President and Chief Executive Officer, Inland Container Corporation; **W. Wayne McDonald,** Chairman and Chief Executive Officer, Temple-Inland Financial Services; and **Joe C. Denman Jr.,** Chairman, President and Chief Executive Officer, Temple-Eastex Incorporated.

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Officers

Inland Container Corporation Corporate Group

Ben J. Lancashire
Chairman, President and Chief Executive Officer

E. Barney Ciotti
Senior Vice President and President, Anderson Box Co.

David J. Harrison
Senior Vice President—Administration

Joseph M. Areddy
Vice President—Public Affairs

Joseph E. Tomlinson
Vice President, Treasurer and Controller

John M. Vaughan
Vice President—Engineering and Technology

Robert B. White
Vice President—Management Information Services

Steven L. Householder
General Counsel

Donald W. Armstrong Jr.
Assistant Vice President—Human Resources Planning and Development

Frank F. Hirschman
Assistant Vice President and Assistant Secretary

Patricia A. Foley
Assistant Secretary

Containerboard Division

Winfred E. Babin
Group Vice President

Frederick G. Fly
Vice President—Sales and Administration

James W. Emerson
Vice President and General Manager Inland-Rome Inc.

Container Division

William A. Long
Group Vice President

James E. Bauer
Senior Vice President—National Accounts

James E. Cory
Senior Vice President—Sales and Marketing

Roger B. Morse
Senior Vice President—Plant Operations

Joseph E. Turk
Vice President—Manufacturing Services

James R. Adams
Vice President—Area Manager

Charles R. Bachman Jr.
Vice President—Area Manager

James M. Givens Jr.
Vice President—National Accounts Executive

Samuel E. MacNulty
Vice President—National Accounts Executive

C. Raymond Pope
Vice President—Regional Sales Manager

J. Larry Tignor
Vice President—Area Manager

Charles L. Wilson
Vice President—Area Manager

Robert N. Wood
Vice President—National Accounts Executive

Anderson Box Company

James R. McConnell
Vice President and General Manager

Inland-Orange Inc.

Ted A. Owens
Vice President and General Manager

Temple-Eastex Incorporated Corporate Group

Joe C. Denman Jr.
Chairman, President and Chief Executive Officer

Robert G. Luttrell
Vice President—Administration and Treasurer

George S. Vorpahl
Vice President and General Counsel

Horace G. Stubblefield Jr.
Vice President

James R. Wash
Secretary

Jack H. McCuistion
Controller

James J. Nelson
Assistant Secretary and Assistant Treasurer

Building Products

Harold C. Maxwell
Group Vice President

Joe K. Sample
Vice President—Marketing

Jack C. Sweeny
Vice President—Operations

Forests Division

Glenn A. Chancellor
Group Vice President

Pulp & Paperboard Division

David L. Ashcraft
Group Vice President

Russell E. Chase Jr.
Senior Vice President—Marketing

Aubrey W. Barlow
Vice President—Sales

Robert W. Kent
Vice President—Mill Operations

E. Wayne Carr
Controller

AFCO Industries, Inc.

Robert G. Molloy
President and Chief Executive Officer

Sabine Investment Company of Texas, Inc.

James E. Brasse
President

Temple Associates, Inc.

Joseph C. Foy
Executive Vice President Construction Group

William B. Fulmer III
Executive Vice President Universal Electric Construction Group

The Angelina Free Press, Inc.

Paul M. Durham
Vice President, Editor and General Manager

Temple-Inland Financial Services Inc.

W. Wayne McDonald
Chairman and Chief Executive Officer

Lumbermen's Investment Corporation

Joseph L. O'Connor
President

J. M. Shorter
Senior Vice President

Joseph L. Maverick
Senior Vice President—Commercial Lending

David Skinner
Senior Vice President Loan Administration

Joseph Inderbitzen
Senior Vice President Regional Manager—Lending

Temple-Inland Properties Inc.

Dan Davidson
President

Timberline Insurance Managers, Inc.

Gary H. Cooper
President

Great American Reserve Insurance Company

Ben P. Denman
President and Chief Executive Officer and Chairman of National Fidelity Life

Edward H. Keckeisen
Executive Vice President and Chief Operating Officer

John H. Buchanan
Executive Vice President and Chief Actuary

William R. Floyd
Executive Vice President—Administration

Robert L. Sanders
Executive Vice President—Marketing

Terrence L. Whitworth
Executive Vice President and Treasurer Chief Financial Officer

Ronald F. Ruhl
Senior Vice President—Insurance Operations

National Fidelity Life Insurance Company

Barry J. Grossman
President

John H. Buchanan
Senior Vice President

Charles R. Duffy Jr.
Senior Vice President—Operations

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Shareholder Information

Transfer Agent and Registrar
RepublicBank Dallas, N.A.
P.O. Box 2964
Dallas, Texas 75221

Independent Accountants
Ernst & Whinpey
Houston, Texas

Annual Meeting
The annual meeting of shareholders of Temple-Inland Inc. will be held at our corporate headquarters, 303 South Temple Drive, Diboll, Texas on Friday May 6, 1988 at 9:00 a.m. local time.

Stock Listing
Temple-Inland Inc. Common Stock is listed on the New York and Pacific Stock Exchanges, Ticker Symbol: TIN.

Common Stock Prices and Dividend Information

	Price Range		Dividends
	High	**Low**	
1987			
First Quarter	**$66⅛**	**$45⅓**	**$.15**
Second Quarter	**68½**	**55⅞**	**.18**
Third Quarter	**68**	**56⅝**	**.18**
Fourth Quarter	**68½**	**35⅛**	**.18**
Year	**68½**	**35⅛**	**.69**
1986			
First Quarter	$44⅜	$33⅜	$.144
Second Quarter	42⅜	38	.144
Third Quarter	47⅓	35⅛	.144
Fourth Quarter	47	41⅛	.144
Year	47⅓	33⅜	.576

Number of Shareholders
As of December 31, 1987, there were 9,999 shareholders of record of the Company's common stock.

Dividend Reinvestment Plan
The Company offers its shareholders a convenient and economical way to increase their investment in our Common Stock through the purchase of additional shares with quarterly dividends and optional cash payments. Under the Temple-Inland Inc. Dividend Reinvestment Plan administered by RepublicBank Dallas, N.A., Temple-Inland pays the brokerage fees and service charges, and the shareholder receives the benefit of larger quantity purchases and optional free custodial services. For more information on the Plan, contact RepublicBank Dallas, N.A., Dividend Reinvestment Department, P.O. Box 2964, Dallas, Texas 75221.

Form 10-K
A copy of Temple-Inland Inc.'s annual report on Form 10-K as filed with the Securities and Exchange Commission will be sent without charge upon written request to the Company's Shareholder Relations Department.

Mailing Address
Temple-Inland Inc.
Drawer N
Diboll, Texas 75941

Telephone Number
(409) 829-1313

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1987 Annual Report
Temple-Inland Inc.
Drawer N
Diboll, Texas 75941