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Temple-Inland

1993 Annual Report

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About Our Company

Temple-Inland is a Diboll, Texas-based holding company with major interests in paper, packaging, building products and financial services.

The Company's four business units operate in three major subsidiaries. Inland Container Corporation is the operating company for our containerboard and corrugated box operations. Two groups, Bleached Paperboard and Building Products, operate as Temple-Inland Forest Products Corporation. The third subsidiary, Temple-Inland Financial Services, has two major units—Guaranty Federal Bank, F.S.B., and Temple-Inland Mortgage Corporation.

Inland Container Corporation currently operates seven paper mills, four of which are 100% recycle mills, 39 corrugated box manufacturing plants, and a tape plant. In 1993, this group produced 2.5 million tons of containerboard (linerboard and corrugating medium), and shipped 1.98 million tons of corrugated boxes. The company ranks among the top four in the United States in both containerboard and corrugated box production.

Temple-Inland's bleached paperboard production is concentrated in one large specialty mill located in Evadale, Texas. Paper produced there goes to four distinct markets: food service containers, office and school supplies, packaging, and commercial printing. In 1993, this mill produced 564,000 tons of paperboard.

The Company's Building Products group produces a wide range of building materials including lumber, plywood, gypsum wallboard, particleboard, and fiberboard. In 1993, revenues from building products totaled $475 million.

Temple-Inland is a major landowner in the South with about 1.9 million acres of forestland in east Texas, Louisiana, Georgia, and Alabama.

Guaranty Federal Bank, F.S.B., is headquartered in Dallas, Texas and operates 124 branches in Dallas, Fort Worth, Houston, Austin, San Antonio and surrounding communities. It has over $8.8 billion in assets and is the largest Texas bank owned by a Texas-based company.

Temple-Inland Mortgage Corporation operates nationally and services a mortgage portfolio of approximately $9.1 billion.

Temple-Inland's common stock is listed on the New York and Pacific Stock Exchanges under the ticker symbol TIN.

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FINANCIAL HIGHLIGHTS
(in millions, except per share data)

	1993	1992	Percent Increase (Decrease)
Total Revenues	**$2,735.8**	$2,713.2	1
Manufacturing Net Sales	**$2,100.7**	$2,075.4	1
Operating Income	**$ 162.4**	$ 222.1	(27)
Net Income (1)	**$ 117.3**	$ 146.9	(20)
Earnings Per Share (1)	**$ 2.11**	$ 2.65	(20)
Dividends Per Share	**$ 1.00**	$ .96	4
Shareholders' Equity	**$1,700.2**	$1,632.6	4
Book Value Per Share	**$ 30.63**	$ 29.55	4
Average Shares Outstanding	**55.5**	55.5	—
Common Shares Outstanding at Year End	**55.5**	55.3	—

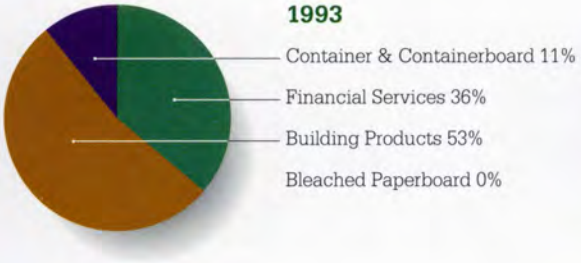
(1) 1993 includes $50 million or $.90 per share from cumulative effect of accounting changes.

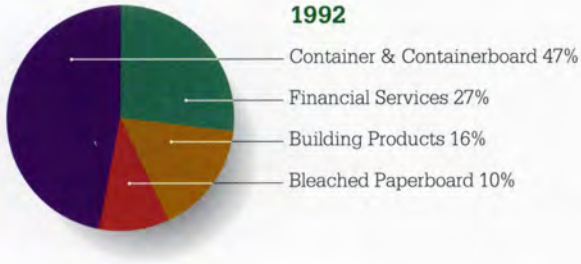
SELECTED BUSINESS SEGMENT DATA
(in millions)

	1993	1992	Percent Increase (Decrease)
Manufacturing Net Sales			
Container and containerboard	**$1,248.5**	$1,254.4	—
Bleached paperboard	**$ 318.5**	$ 352.6	(10)
Building products	**$ 475.3**	$ 391.3	21
Operating Income			
Container and containerboard	**$ 21.0**	$ 112.3	(81)
Bleached paperboard	**$ (12.1)**	$ 23.3	(152)
Building products	**$ 99.1**	$ 39.5	151
Financial services	**$ 67.5**	$ 64.4	5

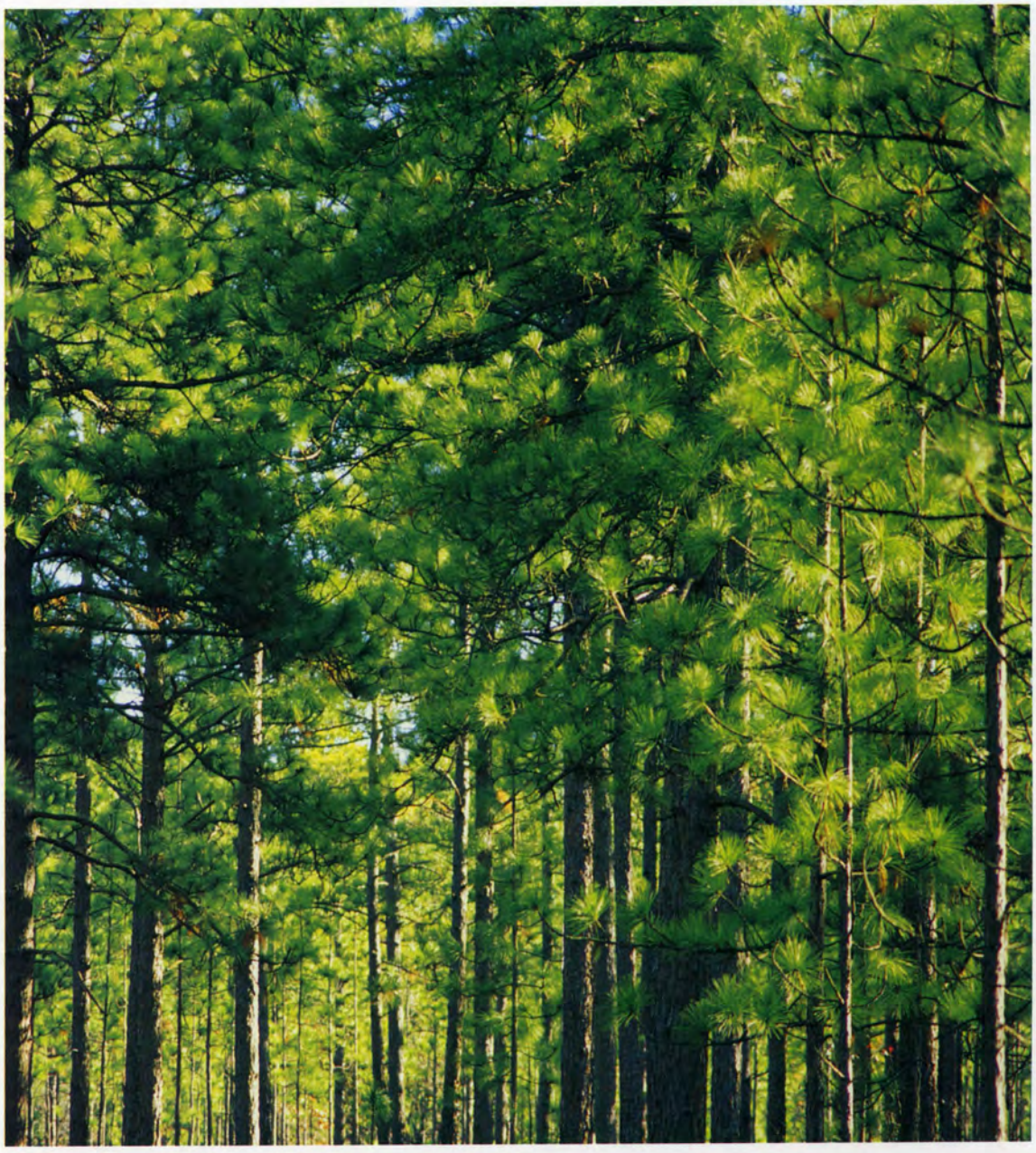
Combined Operating Earnings

Combined operating earnings for Temple-Inland Inc. in 1993 and 1992 totalled $162.4 million and $222.1 million respectively. These charts show the percentage contributed by each of the Company's operating groups.





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To our Shareholders

1993 was another difficult year for Temple-Inland. Both our building products and financial services groups had record earnings, but our paper groups continued to suffer from deteriorating market conditions and profits declined, offsetting the favorable increases in the other units.

Normal earnings per share of $1.21 were down 54% from last year's level. In the first quarter of 1993, the Company adopted two new accounting changes (FASB 106 and 109) which required a charge to current earnings for the present value of the anticipated post-retirement medical costs for employees, and an adjustment to earnings to reflect anticipation of certain income tax developments. Largely because we are now recognizing future anticipated tax benefits from our acquisition of Guaranty Federal Savings Bank, the net result of adoption of these accounting changes increased our net income by $.90 per share, to $2.11, compared to $2.65 last year.

Our review of operations, including a complete analysis of financial information, is included in the review beginning on page 23. The remainder of this letter addresses the economic environment faced by our Company last year and the changes we anticipate in 1994.

The strength of the U.S. economy in the fourth quarter of 1992 created optimism that our corrugated box volumes would continue to experience recovery in 1993, and that improving global markets would strengthen containerboard demand. Although moderating in its growth, domestic box volumes grew by over 4% in 1993, but export levels of containerboard actually declined as the other world economies continued to soften. The growth of the U.S. market was not sufficient to absorb the change in export demand. As a result, the surplus of containerboard created a discounting environment and prices of both boxes and containerboard declined into the fourth quarter.

Our containerboard mills experienced excellent productivity, especially our new Maysville, KY, mill which produced 42,000 tons over plan. We would have generated excessive inventories except for our decision to curtail production at all of our mills, reducing annual tonnage by about 57,000 tons. Since a large portion of the cost of manufacturing containerboard is fixed, a reduction of tonnage has an additional adverse effect on earnings.

Corrugated box volumes began to improve in the third quarter and momentum continued in the fourth quarter. Price recovery in both containerboard and boxes began in the fourth quarter. More significantly, additional improvement is being realized in the first quarter of 1994, and current momentum should allow further margin restoration throughout the year.

Demand for our bleached paperboard products softened throughout the year, and price discounting continued in most product categories, especially market pulp. When market pulp pricing declined to unacceptable levels in the third quarter, we decided to curtail production of this product indefinitely, accepting selected downtime on our paper machines and increasing production of new products.

As part of the $500 million modernization and expansion program at our Evadale, TX, bleached paperboard mill, our new hardwood fiber line was completed and started up in 1993. This project, along with certain other modifications, improved the efficiency of the mill during the second half of the year. The entire project will be completed in 1995, allowing the mill to be a low-cost producer of a wider range of bleached paperboard products.

1994 will probably be another difficult year for this group, but completion of additional projects in our modernization program should allow for more efficient production and the ability to begin the manufacture of new grades of bleached paperboard to replace the discontinued pulp production.

Building material markets improved throughout the year as the level of residential

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construction recovered. Timber shortages on the West Coast restricted production of most building materials from that region, allowing the growth in demand to be supplied from the South.

Our timber base of approximately 1.9 million fee acres and our state-of-the-art converting mills allowed us to leverage this opportunity by generating record earnings in our building products group. Backlogs in the fourth quarter were at record levels, and construction levels appear to be improving further as we enter 1994.

Our investments in our building material plants during the past five years principally have improved operating efficiencies and provided additional converting capacity of lumber and plywood. Therefore, we were able to leverage the margin improvement into profit realization two and one-half times greater than last year.

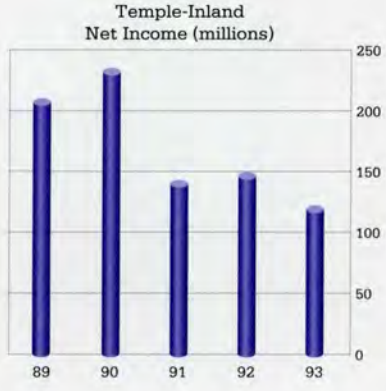
Demand for our other building materials has also improved, especially particleboard. Particleboard, a substrate that is largely used in furniture and cabinet manufacturing, continues to benefit from the improved housing trends. Particleboard is an engineered product made from dry wood waste, with shaving residues from lumber production being the most economical source of supply.

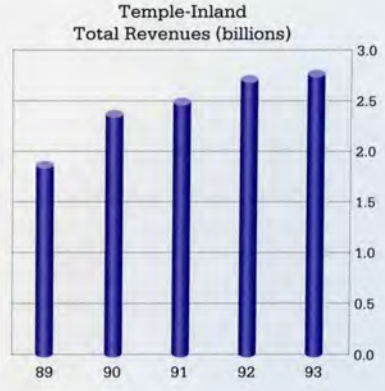
As lumber production on the West Coast has declined, particleboard production from that region also has been curtailed. After a thorough study of locations where excess lumber residues would continue to be available, we selected Hope, AR, as the site for a new particleboard mill. This $62 million mill will produce 170 million square feet of particleboard with start-up scheduled for early 1996.

Our financial services group reported record profits, despite some difficult market conditions. Our savings bank, which we have built through a series of acquisitions since 1988, has a large consumer base of deposits and a very efficient branch system to service these customers. However, the existing bank had virtually no ability to generate significant loan volumes and therefore, we were required to purchase securities to create income-producing assets. Since internally generated loans allow improved margins over purchased securities, we accelerated our efforts to build our lending group and generated a record volume of new loans last year. Quality of this portfolio is more important than volume and we continue to maintain a portfolio of very high-quality loans.

In 1993, our mortgage banking unit generated record levels of new loan originations ($4.8 billion), and servicing volume now exceeds $9 billion. If the wave of refinancing of existing homes declines as expected in 1994, loan originations will also contract.

In 1993, we also accelerated our efforts to improve the efficiency of all the Company's operations. As margins eroded in several of our units during the year, we expanded our efforts to improve quality and eliminate





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waste. Price recovery alone will not restore all of our margin loss; therefore, we need to be more efficient in producing better products for our customers. All divisions are examining what functions provide a service to customers and other stakeholders, and eliminating those that do not. The process itself is beginning to pay dividends, and we are committed to continue to invest to create noticeable improvement in our profitability.

Most of our units had improved productivity during 1993. This would not have been possible without the efforts of all of our employees. I thank them for their accomplishments and especially for their commitment to continue to build for the future.

Since our last annual report, four men retired from service to our Company. During 1993, Henry Goodrich and Ben Lancashire retired as directors and Joe Denman retired as Director Emeritus. In February 1994, Arthur Temple retired as Chairman Emeritus and director.

In addition to serving as directors of Temple-Inland Inc., each of these men served as executives of the Company, and they had a combined tenure of over 155 years of service to the Company. Each is an exceptional individual and businessman whose expertise was important to the growth and development of our Company. We will miss their guidance and forever be indebted to them.

With the retirement of Ben Lancashire, William B. Howes was elected Chairman and Chief Executive Officer of our Inland Container Corporation subsidiary, and Group Vice President of Temple-Inland.

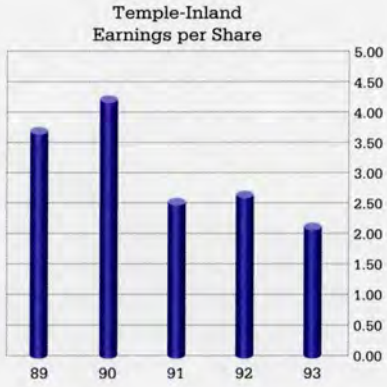
Three new directors have joined our Company. Herbert A Sklenar, Chairman and Chief Executive Officer of Vulcan Materials Company, was elected to the Board in August. Paul M. Anderson, President of Panhandle Eastern Corporation, and Charlotte Temple, a private investor, were elected to the board in February 1994. We welcome them to Temple-Inland and look forward to receiving their advice and counsel.

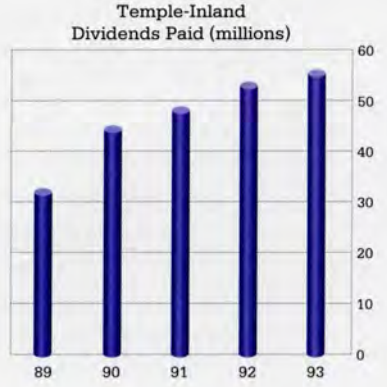
As we enter 1994, the momentum of the corrugated container business is becoming more positive, and both building products and financial services have an opportunity for another record year. If these markets continue to improve, our earnings should rebound significantly from the disappointingly low level of 1993.

Sincerely,



Clifford J. Grum
Chairman and Chief Executive Officer
February 10, 1994





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Container & Containerboard

Inland Container Corporation is Temple-Inland's largest manufacturing group with 1993 revenues of $1.24 billion. It is a vertically integrated unit with seven paper mills which produced record tonnage for the year. Inland annually processes approximately 85% of the containerboard produced in these mills in the company's 39 corrugated box manufacturing plants. The remaining containerboard is sold on the open market.

As 1992 came to a close, expectations were high that our container and containerboard business would continue to experience the recovery in earnings which began in 1992. Earnings in 1992 had been 49% higher than the previous year, and with demand for corrugated boxes and the outlook for economic growth improving, prospects for pricing recovery were positive.



Inland Container converts approximately 800,000 rolls of paper annually in its box plants.

In addition, the company's new recycled linerboard mill at Maysville, KY, which began operations in October 1992, was operating profitably at greater than design capacity within two months of start-up, an almost unheard of feat.

However, it soon became apparent that the economies in Europe and Asia were not recovering and exports of containerboard were falling. This, in turn, caused a large surplus of containerboard in this country, putting severe pressures on selling prices of both containerboard and corrugated boxes. Prices continued to fall until the fourth quarter of 1993 when a price recovery program began with a containerboard increase in October.

So, despite positive expectations, 1993 operating profits plunged to the lowest level since 1986. Earnings for the group were $21 million, down 81% from $112.3 million in 1992.

Containerboard production at Inland's seven paper mills totaled a record 2,473,000 tons. The new Maysville mill produced 246,890 tons, averaging over 700 tons per day.

During the year, Inland's inventories of containerboard grew to higher than targeted levels. As a result, the decision was made to take unscheduled downtime, with each of the mills shutting down for periods ranging from seven to 14 days. Approximately 57,000 tons were taken out of production, allowing inventories to return to target.

Corrugated box shipments in 1993 totaled 1,984,000 tons, up about 2% from the previous year. Inland maintained its position among the top four corrugated box producers in the U.S. with about 8.5% of U.S. production.

During the past six years, the Company has spent over $1.2 billion expanding and modernizing its container and containerboard operations. Each of the company's six existing containerboard mills has been expanded and modernized and the new 100% recycled linerboard mill was built in Maysville.

Two companies, Crockett Container Corporation and Pakway Container Corporation, were purchased, adding five corrugated box plants to Inland's system. Also, Inland's box plant system continued to be modernized, increasing capacity with state-of-the-art corrugators and finishing equipment in order to maintain a high level of integration and achieve productivity gains.

Another factor influencing box plant operating strategy originated directly from our customers. Large national users of corrugated boxes continued to consolidate their corrugated purchasing, forming strategic alliances with suppliers and dramatically reducing their supplier base. With our system of corrugated manufacturing plants strategically located throughout the United States, we are in an excellent position to gain from these alliances.

However, in order to maximize our gains from these alliances, we are developing new strategies which fundamentally change the way we operate the box plants. While the company's paper mills operate 24 hours a day, seven days a week, box plants typically run two or three shifts, five or six days a week. In 1993, we experimented with one of our box plants, putting it on a seven-days-a-week, 24-hours-a-day basis. This program has been very successful, greatly increasing the throughput of the plant and considerably improving its rate of profitability.

In the past five years, the average output of our corrugated box plants increased 22%. In keeping with our efforts to increase through-

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The heart of any corrugated box plant is its corrugator, which converts rolls of linerboard and corrugating medium into corrugated board which is then converted into boxes. A continuous improvement team determined that by standardizing the core size for paper rolls, the need to set controls to accommodate changes in core sizes was eliminated. This not only reduced waste in the form of excess paper being left on the rolls, but also increased the efficiency of the corrugator.

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Eliminating damage to paper in transit from mills to box plants is a project tackled by our continuous improvement (CI) teams. By developing standardized patterns for loading trucks and rail cars, and loading them as tightly as possible, transit damage has been reduced by about 75%. A CI team also developed a program to use reusable rubber mats instead of disposable wood blocks to keep roll stock from shifting during transit by truck, substantially reducing damage to the paper.

put at each box plant, this growth should accelerate.

1993 was also the first full year of production at the company's new Graphics Resource Center in Indianapolis, which features the largest preprint linerboard press in the United States. The press features an eight-color central impression cylinder, with two downstream print stations. It is 100 inches wide, is capable of running at 1,200 feet per minute, and comes equipped with full robotics capability. By the end of 1993, the press was operating on a four-shift, seven-days-a-week basis.

In October, ground was broken for a new corrugated box manufacturing plant in Mexico. The 150,000 square foot plant is being built on a site located on the main north-south rail line between Monterrey and Mexico City. The plant will allow us to serve the growing Mexican markets, including existing U.S. customers who are now operating in Mexico. Completion is scheduled for the third quarter of 1994.

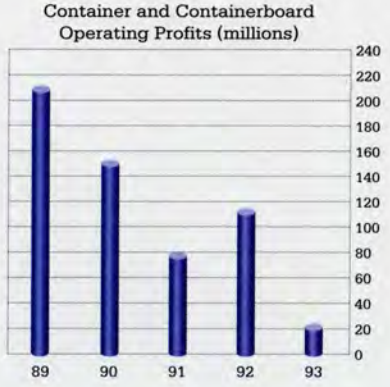
Our company is the nation's leader in the manufacture of 100% recycled containerboard (linerboard and corrugating medium). With the Maysville mill operating throughout 1993, 100% recycled production totaled 869,000 tons. We consumed 1,167,092 tons of old corrugated containers at our paper mills, 42% of total raw material.

Demand for boxes made from recycled fiber is increasing, with many U.S. companies specifying recycled content in their packaging. A group of companies calling itself the "Buy Recycled Business Alliance," which includes many of our major customers, has the objective of requiring suppliers to provide higher volumes of recycled packaging materials and greater recycled content in finished goods. With 100% recycled containerboard mills in both the eastern and western sections of the United States, we are unique in the industry in our ability to economically provide to anywhere in the country, quality, 100% recycled boxes with paper produced in our own mills. This is a distinct competitive advantage.

In order to further capitalize on our strategic advantages of location and recycle capability, providing quality and the ability to reduce total system cost for the customer is imperative. With the "Inland Quality Process" (IQP) implemented throughout the company, all employees are involved and committed to the process of continuous improvement and the elimination of waste.

In 1993, our plant in Minden, LA, earned ISO 9001 registration. ISO 9001 has become the most widely recognized definition of a quality management system in the world today. The plant's quality process was certified by AT&T Quality Registrar. By comparing the Inland IQP system (which is in place in all our plants) to the ISO 9001 standard, we were able to verify that IQP is fully aligned with the ISO standards.

Total commitment on the part of all employees will ensure that we continue to be successful and maintain our position of leadership in this very competitive industry.





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Bleached Paperboard

Temple-Inland's bleached paperboard operations are concentrated at one large mill located in Evadale, TX.

Paper produced at the mill goes to four distinct markets: food service containers, office and school supplies, packaging, and commercial printing.

Similar to the brown-paper segment of the business, weak global markets for bleached paperboard reduced exports and contributed to an oversupplied domestic market at a time of slow economic growth and increasing capacity. Consequently, prices deteriorated and downtime was required of most producers to help balance supply and demand throughout the industry.

As a result of poor market prices, unfavorable product mix, and production curtailments, the bleached paperboard group recorded a loss for the first time since operations commenced in 1954. The loss for 1993 totaled $12.1 million on revenues of $318.5 million, which were down 10% from last year.

In the past, declines in demand for board grades have been supplemented by running pulp on board machines. However, during the second half of 1993, price levels for pulp also fell to unacceptable levels so machine downtime was taken instead of pulp production. Subsequently, the decision was made to suspend market pulp production indefinitely.

Food service grades accounted for 52% of our bleached board production in 1993. Major grades included in this category are papercup stock used by most domestic cup manufacturers, coated and uncoated plate stock, and certain folding carton stock used in serving food.

Temple-Inland Food Service Corporation was formed in 1991 to further integrate and develop new products for selected segments of the food service market. Food Service manufactures and markets containers such as food trays and scoops for nachos and french fries, locked corner boxes for bakery goods and pizza, paper plates and bowls, and carryout containers for ethnic foods like spaghetti and chow mein.

Office and school supply grades are used for items such as file folders, green hanging folders, and index cards. Approximately 21% of our 1993 sales volume went into this category.

Bleached linerboard and folding carton stock comprise the packaging category. Bleached liner is used as the top layer of corrugated boxes which require a bright and smooth printing surface needed for high-quality graphics. Folding carton stock is used in a wide variety of end-use packages, and 14% of Evadale's 1993 production went into these products.

Texcover is a high-quality, coated one-side grade used in a wide variety of commercial printing applications. In fact, the cover of this annual report is Texcover produced at the Evadale mill. Although only 4% of the mill's production is currently in this grade, we plan to increase the output of this product with our modernization program.

As with all of our business units, continuous improvement and the elimination of waste are primary objectives of the bleached paperboard group. During 1993, hardwood fiber production was increased with the startup of the new pulping and bleaching line. By the third quarter, the new fiberline was producing a brighter, stronger, more consistent hardwood fiber with better wood yield and less chemical and energy consumption. The use of elemental chlorine was eliminated in late December 1992, and the old hardwood pulping line was shut down in the first quarter of 1993.

Significant steps were taken during a maintenance shutdown in the fourth quarter to improve the quality of coated grades produced at Evadale. Modifications made to the coated machine improved sheet formation, smoothness, coating application, and printability. Other improvements made during 1993 included the installation of a new winder and modifications to lower density on uncoated grades.

Excellent progress was made during the year on the $500 million expansion and modernization program at the mill. Primary elements of the program include: installation of a fifth paper machine to produce over 200,000

Opposite: Our new control room at the Evadale paperboard mill houses the new fiberline distributed control systems. The entire system is totally automated, converting chips from the woodyard into high quality pulp for the paper machine. Significant savings in chemical, steam and water have been realized since the fiberline's startup in December 1992.

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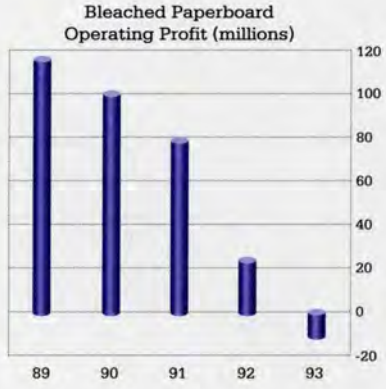
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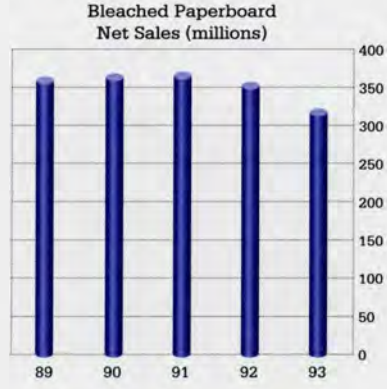
additional tons of low-density coated paperboard annually, bringing annual production at the mill to 800,000 tons; a new 1,200 tons per day pine pulping and bleaching line; a new lime kiln; a poly extrusion operation; and upgrades of all existing paper machines to improve quality.

On-site construction of the new paper machine building began in February 1993, followed in July by the beginning of construction of the new pine fiberline. All major equipment has been ordered and projects are on schedule and within budget. The new lime kiln is scheduled to be completed in December 1994, and the new pine fiberline should be operational during the first quarter of 1995. The new paper machine will begin operating in mid-1995.

When the modernization program is completed in 1995, the mill will be able to efficiently manufacture a wider range of bleached paperboard products. With its current machine configuration, the mill cannot produce low-density grades of paperboard at a competitive cost. The anticipated demand growth for these grades represents a large portion of the entire market's projected growth.

Despite a most difficult year in 1993, the bleached paperboard group has taken many necessary steps to prepare for the future. We are committed to bleached paperboard markets, and the improvements being made today are laying the foundation for a strong future.





Building Products

Temple-Inland's building products group manufactures a wide range of building materials including lumber, plywood, particleboard, gypsum, and fiberboard. Its conversion of sawtimber into lumber and plywood enables the Company to maximize the value of our forests and also generates wood chips that are used as a low-cost raw material in our paper mills.

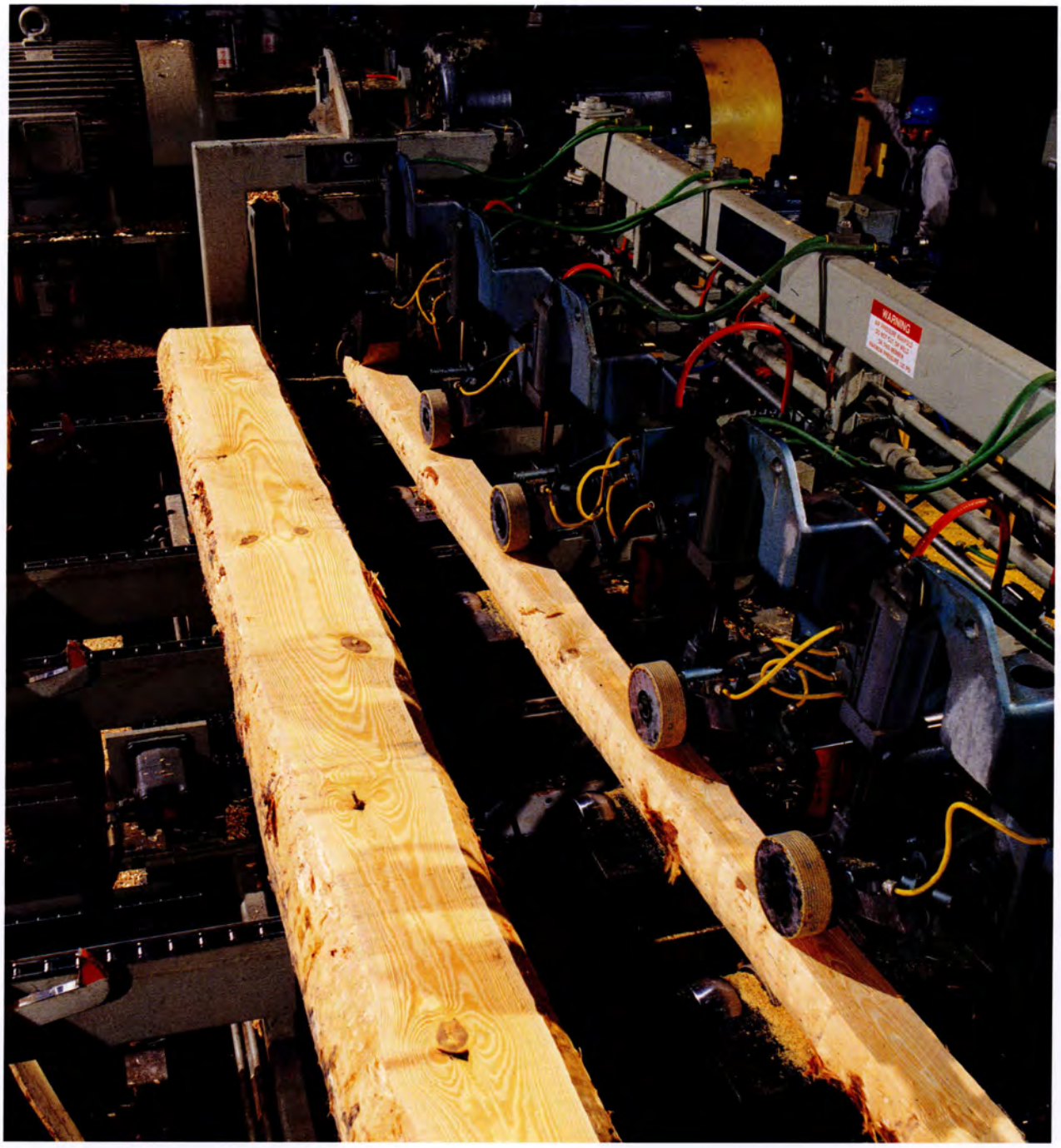
In 1993, the group had its most profitable year in history and established production records in most product categories. The group earned $99.1 million, up 151% from the $39.5 million earned in 1992. Sales in 1993 totaled $475.3 million.

During the past five years, we invested not only to expand our productive capacities for most building materials, but also to be more efficient in manufacturing an improved product mix. Lumber production of 550 million board feet represents a 67% increase from five years ago, with plywood and gypsum up 27% and 19%, respectively.

Equally as significant is our product mix which has improved toward higher-margined specialty items. For instance, in the past five years, the composite sales average, including new and improved specialty gypsum products, more than doubled the underlying increase of commodity wallboard.

The price of wood fiber continued to esca-

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A new, first-of-its-kind arc sawing system has been installed at the Company's Buna, Texas, sawmill, significantly increasing the lumber recovery at the mill. The system is able to scan crooked logs and then convert those logs into straight lumber.

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With the value of wood fiber at a premium, Temple-Inland has revived a product that helps get the maximum value out of all sawtimber we harvest. Engineered lumber recycles short pieces of cut lumber, previously chipped for panel products, to create new premium lengths of dimensional lumber.

late during 1993; therefore, we accelerated our efforts to automate our manufacturing processes to more efficiently convert fiber to lumber. The portion of a tree that ends up as lumber is three times more valuable than the residues which become chips for paper mill consumption. Each of our sawmills improved its efficiency in converting logs to lumber last year. At our Buna, TX, sawmill, a new sawing operation using new technology was added which allows us to convert crooked logs into straight lumber.

In 1993, we installed a finger-jointing operation to manufacture studs up to ten feet in length, as well as molding stock. This process enables us to recover trim waste and upgrade some low-grade lumber into a premium product. Other specialty lumber and plywood products were developed for export to Mexico.

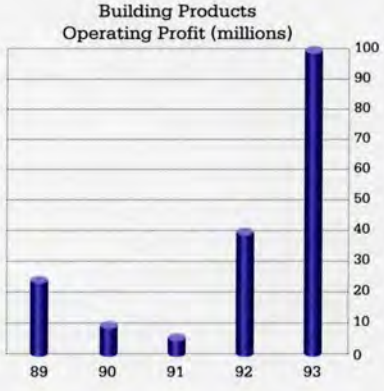
Our plywood mill also achieved record production totaling 265 million square feet. New plywood specialty products allowed us to leverage our increase in profitability over commodity items.

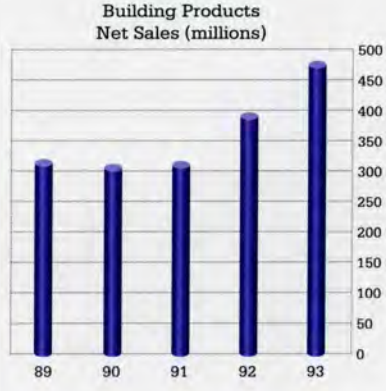
The Company's particleboard operations had another excellent year in 1993, producing 319 million square feet, almost all of which was higher-value industrial grades, rather than commodity grades used primarily as sub-flooring. Our industrial particleboard replaces plywood and lumber in the manufacture of several consumer items such as kitchen cabinets and ready-to-assemble furniture. Markets for these products continue to expand and, in December, we announced plans to build a new plant which will only produce industrial-grade particleboard. Construction of this new $62 million facility in Hope, AR, will begin in the third quarter of 1994, with completion expected in the first quarter of 1996.

Another product for which demand improved significantly in 1993 was gypsum, where markets had been very weak over the past several years. Our gypsum production in 1993 totaled 773 million square feet, up 25% from the previous year.

1993 was the year that 54-inch gypsum, which we introduced last year, became a standard product in the industry and proved to be the most significant new development in construction-grade gypsum. Known as Stretch 54, this product saves installation time and decreases waste in the construction of homes with nine-foot ceilings. Since gypsum is normally installed horizontally, the 54-inch board, when used on a nine-foot wall, has only one joint that must be covered. A standard 48-inch board leaves a gap that must be filled using a one-foot strip which creates two joints that must be covered. Production of this product reduces productivity at most gypsum mills, but the forming and drying configuration at our West Memphis location allows conversion to this size without a decrease in efficiency.

Our fiber products group produced record amounts of TrimCraft, our lumber substitute which is used in a variety of exterior and interior trim applications. This engineered product is manufactured with both smooth and textured surfaces and is a viable alternative to high-grade lumber. By year-end, we complet-





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ed a capital project that will allow us to more than triple our production of this product.

We continue to automate our manufacturing processes and, more importantly, to involve our people in the decisions that allow them to be more productive and efficient in their day-to-day performances. Process control, continuous improvement, and the elimination of waste in all of our processes have become a way of life in our manufacturing plants. These efforts will not only lower manufacturing costs, but also provide flexible manufacturing processes that address the changing demands of the marketplace and our customers.

In 1993, we completed a redesign of our marketing functions, reaching a new level of technology in the merchandising of our products. A single phone call, often accessed by our customer's computer, can provide a price quotation, confirm a sale, arrange credit approval and schedule a delivery date. Previously, this process required up to 24 hours. New employee teams have been organized to assure a single-point contact for customer support service.

As we move into 1994, our building products group is positioned to continue to benefit from the innovations introduced by our employees at all manufacturing and marketing locations. Productivity is improving and costs are being reduced by fully involving all our people in the process of continuous improvement.

Forests

Most of the products we manufacture have a common natural beginning—the forest.

Temple-Inland owns some 1.35 million acres in eastern Texas and western Louisiana and 530,000 acres in Georgia and Alabama. Whether it is from these 1.9 million acres of controlled lands, or from the timberlands of hundreds of private landowners in these states, we depend on forests to provide raw materials for our plants.

When you depend on something as much as we do our forests, you protect, nurture, and manage them for the long term. Our forest management is keyed to provide a sustained volume of material from these lands—virgin fiber for three paper mills and eight building products plants.

Temple-Inland forests are located entirely in the southern United States, positioning us well to meet the challenging pressures of reduced fiber availability faced by the industry in other regions of the country. Our Texas-Louisiana lands provide 55% of the Company's fiber needs in the area, while our Georgia-Alabama lands supply about one-third of the requirements for the sawmill and paper mill in Rome, GA.

In 1993, we felt the first impact of tight timber supply and strong demand for building products on the value of standing timber in our area. Pine sawtimber stumpage prices reached record levels.

The high-quality pine sawtimber harvested from Company lands greatly enhanced margins in our solid wood plants this year. The purchase of outside timber meeting our quality standards continued at about the same ratio as in past years.

The pulp and paper side of our forest business geared its efforts toward holding fiber costs down and preparing for the expansion of the Evadale paper mill in 1995. This expansion made it imperative that we extend our procurement area. We especially needed to assure an adequate supply of hardwood fiber while facing increased competition, both domestic and foreign.

A $7.5 million chip mill and woodyard facility which was brought on line late in 1992 has been very successful. It produces a quality chip and has exceeded its design capacity. It will become a vital supplier of both pine and hardwood chips from an area strategically located for both Company and outside stumpage.

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Sustaining a quality forest is a primary goal of Temple-Inland. It begins with the harvesting process. Our forest lands are broken into thousands of individual management units. A computerized data system assimilates and maintains specific information obtained by our field foresters on the individual characteristics of each area. Computer models then select for harvest those areas with the best financial return while at the same time meeting Company strategies of age, products, and long-term volume needs.

Areas selected for harvest, either for regeneration or thinning, are logged by independent contractors following "best management practices." These guidelines, established in each state, are closely watched by our forestry staff and audited in conjunction with our corporate environmental department. They assure the protection of streams, water courses, and other aspects of good forest management.

A program developed in 1992 and initiated in 1993 is designed to get optimum value from our trees as they are harvested. Applicable to both fee and purchased timber tracts, the program groups and allocates trees from each harvest area for delivery to the Company manufacturing plant that will result in the maximum financial return. The program utilizes individual tree data, manufacturing cost, logging cost, and selling price for products produced to determine the optimum delivery point.

Through both in-house programs and direct financial support of research at leading universities, Temple-Inland has long been recognized for advancing knowledge in all aspects of timberland management. Constant research is done to find better ways to produce those products needed while retaining the other amenities of the forest—wildlife, recreation, water quality, and aesthetics.

Some of the programs we are currently supporting include: a study of forest genetics; a major wetlands program involving several universities, the U.S. Forest Service, and the Environmental Protection Agency; major studies on the management of white-tailed deer and bobwhite quail in southern pines; and a study throughout the South on the impact of successive pine rotations on forest productivity.

Pine-growing areas, which comprise 85% of Company lands, are not the only areas receiving intensive management. During the past few years, the Company has initiated a hardwood management plan based on years of research and consultation with the best experts in the field.

Designed to improve the overall quality and vitality of our bottomlands, the plan limits the size of regeneration harvests. It goes into great detail to provide wildlife corridors, stream-side management zones, and species diversity. Our 135,000 acres of bottomlands contain some of the best-quality hardwood west of the Mississippi River. The potential to capitalize on the improved management of these lands is most timely as values for quality hardwoods have also escalated dramatically. This program, coupled with our fast-growth hardwood project, will assure hardwood fiber for our future needs.

Even before a tree is harvested on Temple-Inland lands, its replacement—seven times over—has been well planned. Genetically improved seeds from our seed orchards provide seedlings bred for faster growth and disease resistance. We produce some 25 million trees each year in our Texas nursery, and have another 20 million custom grown for our company-wide annual planting program of 45 million trees. We now have established highly productive pine plantations covering 70% of our lands and ranging in age from one to 40 years.

As the nation's commercial timber demand moves south, our fully productive forest lands will become an even more valuable asset. It is, therefore, good to know that the ability to produce quality forest products, while protecting the lands that provide them, is a 100-year-old tradition at Temple-Inland.

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With more than 15 studies under way as evidence, Temple-Inland is continuing its practice of good stewardship of the forest and all its amenities. Subjects of current studies include the Whitetail Deer, Quail relocation, timber rotation, and wetlands research. As timber values have escalated, forestry science now allows additional investments to maximize growth and maintain the environment.

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Financial Services

The financial services group reported 1993 earnings of $67.5 million, a record high for the fifth consecutive year. Guaranty Federal Bank, F.S.B. (the "Bank"), the group's largest unit, celebrated its fifth anniversary September 30, 1993, and may be one of the few institutions that has successfully achieved the goals established in the government's 1988 economic restructuring program for thrifts ("The Southwest Plan").

Assisted assets, as a percentage of total assets, have been reduced from 68% in 1988 to 8% in 1993. Simultaneously, the customer base has been expanded through acquisitions to include 124 branches servicing 79 communities, where over 50% of Texas consumers reside. With assets over $8.7 billion, Guaranty is the fifth largest financial institution in the state, and the largest not owned by an out-of-state bank holding company.

In November 1993, the Bank consummated the acquisition of Dallas-based American Federal Bank, F.S.B. This bank acquisition included approximately $1 billion in assets and consumer deposits. The newly-acquired 24 branches in Dallas and east Texas are strategically important to our franchise. In addition, we have an agreement to acquire First Federal Savings of San Antonio. The addition of 10 branches and $400 million in deposits in this growing market will create an important consumer concentration for our Bank in this metropolitan area.

Guaranty continues to develop its vision as a national residential real estate lender funded by low-cost, stable Texas consumer deposits. During 1993, total loans increased $1.6 billion, to 38% of assets, as we made significant progress toward our 80% goal. The primary lending units provide financing for single-family residential mortgages, commercial real estate, residential construction, mortgage banking, and consumer loans. Of the total $3.3 billion loan portfolio, 85% is secured by residential real estate assets.

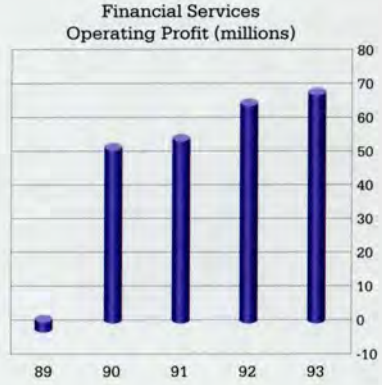
This emphasis on residential real estate within the Bank and our forest products business is an example of how we have integrated the financial services group and the Temple-Inland family. With this strong housing commitment comes a responsibility to help provide solutions to the housing and credit needs of low and moderate-income neighborhoods. Both our consumer bank and the mortgage bank are committed to this effort and constantly explore new initiatives. For example, Guaranty has become a national leader in obtaining and managing the Federal Home Loan Bank's grant programs, and our mortgage company has been nationally recognized for its community lending efforts.

The consumer bank, under the strategic theme of "Neighborhood Texas Banking", continues to focus on generating a low-cost, stable source of deposits while providing service to customers in the eastern one-third of Texas. Its branches are geographically concentrated in Austin, Dallas, Houston-Galveston, San Antonio and adjacent cities comprising a market area of over one-half the population of the state.

Several programs of quality and productivity improvement have been initiated this year. As a result, we were able to increase volumes without increasing costs. In another effort to improve productivity, we have consolidated the data processing centers of the financial services and forest products groups in Austin to take advantage of operating synergies. Other company-wide consolidations are being analyzed with the explicit goal of quality and productivity improvement.

The mortgage bank is a major resource in our commitment to the housing industry. This

Opposite: Temple-Inland Financial Services is able to provide a full range of financial services to developers, builders and home buyers. Many of the building materials used in this home were produced by Temple-Inland Building Products, and construction financing was provided by Guaranty Federal Bank.



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group creates values by originating mortgage loans through a low-cost lending unit, and then, after securitization and sale, efficiently servicing the mortgages.

1993 was another record year for Temple-Inland Mortgage Corporation (TIMC). Total loan production exceeded $4.8 billion, a 37% increase over last year, and the servicing portfolio grew to $9.1 billion, a 17% increase. During 1993, changes were made to take advantage of new technology to maintain its position as one of the lower-cost originators and servicing companies of mortgage loans in the country. In 1994, TIMC will continue to review its processes in order to lower its origination and servicing costs.

Timberline Insurance Agency is operated as a general insurance agency providing a full range of insurance products, including personal and commercial lines, annuities, and life and health insurance. The agency also acts as the risk management department of Temple-Inland and utilizes various techniques to reduce the severity and frequency of claims. Timberline shares in the goal of meeting the financial service needs of the customers of the Bank with over 260 licensed representatives offering non-insured, alternative investment products such as annuities.

Real estate operations, conducted by Lumbermen's Investment Corporation, include development of residential subdivisions, as well as the management and sale of income properties. Land development projects include nine single-family subdivisions in Austin, San Antonio and Dallas. Because there continues to be a shortage of available lots for builders, we expect continued growth.

Our financial services group recognizes that to maintain the positive momentum it has created, it must continually improve its productivity and quality. Consequently, we place significant emphasis on process improvement at all levels in each business segment. As a Texas consumer bank and a national residential real estate lender, we have a clear vision of our future which will ensure that the financial services group continues to build franchise value while generating reliable, high-quality earnings.

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Corporate Headquarters

Diboll, Texas

Subsidiaries' Headquarters

Inland Container Corporation
Indianapolis, Indiana

Temple-Inland Forest Products Corporation
Diboll, Texas

Temple-Inland Financial Services Inc.
Dallas, Texas



Building Products

Fiberboard Operation
Diboll, Texas

Particleboard Operations
Diboll, Texas
Monroeville, Alabama
Thomson, Georgia

Gypsum Operations
West Memphis, Arkansas
Fletcher, Oklahoma

Lumber Operations
Rome, Georgia
DeQuincy, Louisiana
Diboll, Texas
Pineland, Texas
Buna, Texas

Plywood Operation
Pineland, Texas

Retail Distribution Operations
Diboll, Texas
Pineland, Texas
Conroe, Texas
Houston, Texas
Alexandria, Louisiana



Bleached Paperboard Mill

Evadale, Texas

Containerboard Mills

Linerboard
Ontario, California
Rome, Georgia
Maysville, Kentucky
Orange, Texas

Corrugating Medium
Newark, California
Newport, Indiana
New Johnsonville, Tennessee



Packaging

Corrugated Container Plants
Fort Smith, Arkansas
Buena Park, California
El Centro, California
Los Angeles, California
Newark, California
Ontario, California
Sante Fe Springs, California (3)
Tracy, California
Denver, Colorado
Orlando, Florida
Macon, Georgia
Rome, Georgia
Chicago, Illinois
Crawfordsville, Indiana
Evansville, Indiana
Indianapolis, 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 (2)
Dallas, Texas
Edinburg, Texas
Petersburg, Virginia

Tape Manufacturing Operation
Milwaukee, Wisconsin

Food Service Converting Operations
Yuma, Arizona
El Cajon, California
Sacramento, California
Denver, Colorado
Carlisle, Ohio



Financial Services

Consumer Banking Regions
Dallas and Adjacent Cities
Austin and Adjacent Cities
Houston and Adjacent Cities
East Texas

Mortgage Banking Operations
Arizona
California
Colorado
Florida
Georgia
Illinois
Indiana
Maryland
Michigan
Minnesota
New Jersey
New York
North Carolina
Oklahoma
Pennsylvania
South Carolina
Tennessee
Texas
Virginia
Washington
Wisconsin

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Board of Directors

Temple-Inland Inc.

Paul M. Anderson
President
Panhandle Eastern Corporation

Robert Cizik (4) (5)
Chairman, President and
Chief Executive Officer
Cooper Industries, Inc.

Anthony M. Frank (1) (2) (3)
Chairman
Acrogen Inc.

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

Bobby R. Inman (2) (4)

Herbert A. Sklenar (4) (5)
Chairman and
Chief Executive Officer
Vulcan Materials Company

Walter P. Stern (1) (2)
Chairman of the Board
Capital International, Inc.

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

Charlotte Temple

Larry E. Temple (1) (5)
Attorney

(1) Audit Committee
(2) Management Development and Compensation Committee
(3) Executive Committee
(4) Nominating Committee
(5) Public Policy/ Environmental Committee

Officers

Temple-Inland Inc.

Clifford J. Grum
Chairman and
Chief Executive Officer

Robert F. Adelizzi
Group Vice President

David L. Ashcraft
Group Vice President

William B. Howes
Group Vice President

Harold C. Maxwell
Group Vice President

Kenneth M. Jastrow II
Chief Financial Officer

Roger D. Ericson
Vice President, General Counsel and Secretary

David H. Dolben
Vice President

David W. Turpin
Treasurer

Joseph E. Tomlinson
Assistant Treasurer

James R. Wash
Assistant Secretary

Chester E. Winger
Assistant Treasurer

Inland Container Corporation

William B. Howes
Chairman and
Chief Executive Officer

Ted A. Owens
Group Vice President
Containerboard Division

Joseph E. Turk
Group Vice President
Container Division

Temple-Inland Forest Products Corporation

Bleached Paperboard Group

David L. Ashcraft
Group Vice President

Aubrey W. Barlow
Vice President
Sales and Marketing

Building Products Group

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

Temple-Inland Financial Services

Robert F. Adelizzi
Chairman and
Chief Executive Officer

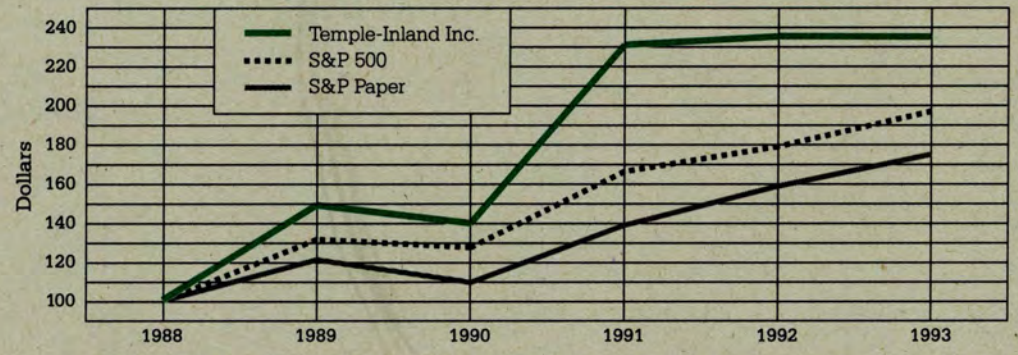
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Business Segments

For the year	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
Revenues					*(in millions)*					
Container and containerboard	**$1,248.5**	$1,254.4	$1,148.6	$1,144.2	$1,138.4	$1,093.1	$ 964.2	$ 721.7	$ 684.2	$ 665.3
Bleached paperboard	**318.5**	352.6	370.6	373.0	368.3	336.0	292.5	264.9	256.7	284.5
Building products	**475.3**	391.3	311.1	305.3	320.3	312.2	322.8	281.5	268.0	295.3
Other activities	**58.4**	77.1	67.9	70.0	67.2	32.2	23.2	27.7	34.2	17.8
Manufacturing net sales	**2,100.7**	2,075.4	1,898.2	1,892.5	1,894.2	1,773.5	1,602.7	1,295.8	1,243.1	1,262.9
Financial services(1)	**635.1**	637.8	608.9	508.6	49.4	40.9	39.4	47.2	39.2	36.3
Total Revenues	**$2,735.8**	$2,713.2	$2,507.1	$2,401.1	$1,943.6	$1,814.4	$1,642.1	$1,343.0	$1,282.3	$1,299.2
Income Before Taxes										
Container and containerboard	**$ 21.0**	$ 112.3	$ 75.4	$ 150.9	$ 208.4	$ 221.3	$ 150.8	$ 38.8	$ 49.7	$ 74.8
Bleached paperboard	**(12.1)**	23.3	79.9	98.8	114.9	82.7	53.4	29.4	19.8	46.8
Building products	**99.1**	39.5	5.2	9.4	23.7	24.6	36.5	35.9	22.5	40.9
Other activities	**(1.9)**	(2.0)	1.1	(1.7)	(.7)	1.2	-	(5.8)	2.5	(3.2)
Operating profit	**106.1**	173.1	161.6	257.4	346.3	329.8	240.7	98.3	94.5	159.3
Financial services(1)	**67.5**	64.4	54.2	51.4	(2.1)	.4	5.3	12.9	18.3	13.4
	173.6	237.5	215.8	308.8	344.2	330.2	246.0	111.2	112.8	172.7
Corporate expense	**(11.2)**	(15.3)	(16.0)	(20.7)	(12.9)	(19.9)	(11.7)	(13.1)	(8.1)	(11.9)
Parent company interest—net	**(69.0)**	(47.4)	(31.8)	(24.0)	(24.4)	(23.1)	(20.3)	(13.0)	1.2	(4.6)
Other income(2)(3)	**2.8**	2.2	(1.2)	4.7	5.0	16.3	5.5	23.4	20.3	8.7
Income before taxes and accounting changes	**$ 96.2**	$ 177.0	$ 166.8	$ 268.8	$ 311.9	$ 303.5	$ 219.5	$ 108.5	$ 126.2	$ 164.9

Performance Graph Comparison of five-year cumulative total return*

During the five preceding fiscal years, the Company's cumulative total shareholder return compared to the Standard & Poor's 500 Stock Index and to the Standard & Poor's Paper Industry Index was as shown in the following table.



Assumes $100 invested on December 31, 1988. *Total return assumes reinvestment of dividends.

(1) Includes operating results from the consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

(2) Income net of federal income taxes from life insurance operations discontinued in 1990, included in other income, was $15.3 million in 1986 and amounts were immaterial in other years.

(3) The 1991 amount includes losses of $7.4 million from the write-off of an investment interest in a gypsum-fiberboard venture. The 1988 amount includes gains of $12.4 million on the disposition of lands and $5.0 million on the sale of the AFCO Industries subsidiary. The 1985 amount includes an $11.3 million gain on the sale of the Eastex Packaging subsidiary.

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CONTAINER AND CONTAINERBOARD

The Container and Containerboard group manufactures linerboard and corrugating medium at seven paper mills and converts these grades of containerboard into corrugated shipping containers at 39 box plants.

The group earned $21.0 million in 1993, down 81 percent from the $112.3 million in 1992. This decline resulted from depressed box and board prices and increased box plant costs. Earnings had improved $36.9 million in 1992 because of moderate box price improvement, increased volume and lower costs at several of the group's recently modernized mills.

Mill production totaled 2.5 million tons in 1993, an increase of 8 percent from the previous year. This production increase came primarily from the Maysville, Kentucky mill which had a fourth quarter 1992 startup. During the last half of 1993, the Company took unscheduled downtime at all of its mills in order to bring inventories to targeted levels. A total of 57,000 tons was taken out of production. Production of containerboard exceeded internal box plant usage by 376,000 tons in 1993, 243,000 tons in 1992 and 218,000 tons in 1991. Most of the excess production was sold in the domestic and export markets.

Construction of the $176 million recycle linerboard mill in Maysville was completed during the fourth quarter of 1992. This new mill has the capacity to annually produce 260,000 tons of linerboard and corrugating medium using old corrugated containers as a raw material. Similar to the Newport, Indiana mill, it is located adjacent to a utility power plant. A long-term contract with the utility assures the mill a source of reasonably priced steam.

The $40 million expansion of the Ontario, California recycle linerboard mill was completed in the second quarter of 1992. This expansion increased production by about one-third — to 290,000 tons annually.

Also in 1992, the $38 million project to produce mottled white and white top linerboard at the Orange, Texas mill was completed. As a result of this project, the Orange mill has the capability of replacing 200,000 tons per year of ordinary brown linerboard production with higher value white top linerboard, and in the process utilizing 70,000 tons of the Evadale, Texas mill's excess bleached pulp.

	1993	1992	1991
Tons Mill Production	**2,473,000**	2,287,000	2,103,000

The Company's 39 box plants are located throughout the United States and in Puerto Rico. They manufacture 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 prices of boxes can be significantly impacted by variations in production mix at the box plants.

Tons of boxes sold increased by 2 percent in 1993 after having increased by 8 percent in 1992.

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

Container & Containerboard	**1993**	1992	1991
Unit Sales		*(in thousands of tons)*	
1st Qtr	**598**	539	523
2nd Qtr	**606**	573	536
3rd Qtr	**593**	579	532
4th Qtr	**597**	603	506
For the year	**2,394**	2,294	2,097
Net Sales		*(in millions)*	
1st Qtr	**$ 318.5**	$ 296.1	$ 289.7
2nd Qtr	**319.6**	319.0	290.1
3rd Qtr	**307.8**	315.6	285.3
4th Qtr	**302.6**	323.7	283.5
For the year	**$1,248.5**	$1,254.4	$1,148.6

BLEACHED PAPERBOARD

The Bleached Paperboard group produces bleached paperboard at its mill located in Evadale, Texas. This production is sold to manufacturers who convert the product into paper cups, plates, file folders, folding cartons, paperback book covers and a variety of other paperboard products.

This group recorded a loss of $12.1 million in 1993, down 152 percent compared to 1992. This is the first loss since operations began in 1954 and is attributed to weak global markets for bleached paperboard and an oversupplied domestic market caused by increased industry capacity. Price decreases for market pulp led to the decision during the fourth quarter to eliminate market pulp from the product mix. An extended outage taken in October 1993 on a coated fourdrinier machine to rebuild the table stock furnish system and install a new size press further decreased earnings. Earnings had decreased 71 percent in 1992, resulting primarily from price decreases for market pulp and other board grades, an unfavorable product mix and an extended maintenance outage in June 1992.

During 1993, hardwood fiber production improved with the new pulping and bleaching line placed in production in late 1992. By the third quarter, the new fiberline was producing a brighter, stronger, more consistent hardwood fiber with lower chemical, energy and wood consumption.

Temple-Inland Food Service Corporation ("Food Service") is an integrated paper converter that manufactures and markets paper containers and products for the food service industry. This operation has converting plants in Carlisle, Ohio, Sacramento and El Cajon, California, and Denver, Colorado. During the fourth quarter, the Yuma, Arizona plant was closed and some of the manufacturing equipment was relocated to the El Cajon and Denver plants. Products manufactured include paper plates and bowls, clamshells, carrying trays and boxes, nested food trays, fry cartons, dispensers and pails, and are sold to the fast food industry, retail consumer stores and to restaurants and cafeterias. Food Service enhances the Bleached Paperboard group's ability to manufacture and market paper products for the food service industry.

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Mill production in 1993 was 564,000 tons compared to 569,000 tons in 1992 and 586,000 tons in 1991. The decline in production was due primarily to the exit from the pulp market and the planned maintenance outage.

The table below lists the quarterly sales by product in tonnage and dollars. Changes in product mix from period to period may make historical comparisons difficult.

Bleached Paperboard	**1993**	1992	1991
Unit Sales		*(in thousands of tons)*	
Paperboard			
1st Qtr	**116**	109	120
2nd Qtr	**109**	97	116
3rd Qtr	**103**	101	107
4th Qtr	**98**	107	104
For the year	**426**	414	447
Pulp			
1st Qtr	**38**	40	33
2nd Qtr	**41**	35	33
3rd Qtr	**33**	40	23
4th Qtr	**22**	40	33
For the year	**134**	155	122
Net Sales		*(in millions)*	
Paperboard			
1st Qtr	**$ 68.9**	$ 66.5	$ 81.3
2nd Qtr	**64.9**	65.2	78.5
3rd Qtr	**58.5**	65.0	73.3
4th Qtr	**54.5**	66.9	68.8
For the year	**$246.8**	$263.6	$301.9
Pulp			
1st Qtr	**$ 10.3**	$ 12.9	$ 13.4
2nd Qtr	**10.3**	10.2	12.0
3rd Qtr	**7.9**	12.7	8.5
4th Qtr	**5.1**	11.8	11.0
For the year	**$ 33.6**	$ 47.6	$ 44.9
Other (including Food Service beginning in 1991)			
1st Qtr	**$ 9.6**	$ 12.1	$ 1.5
2nd Qtr	**11.7**	10.4	4.8
3rd Qtr	**9.2**	8.9	9.7
4th Qtr	**7.6**	10.0	7.8
For the year	**$ 38.1**	$ 41.4	$ 23.8

BUILDING PRODUCTS

The Building Products group manufactures a diversified line of construction and commercial grade building materials including lumber, plywood, fiber products, particleboard and gypsum wallboard. These products are produced at ten locations in Texas, Louisiana, Oklahoma, Arkansas, Alabama and Georgia. Four retail locations, which account for 13 percent of group net sales in 1993, market building materials to contractors and retail customers with approximately 16 percent of their revenues derived from sales of Company manufactured products.

Record earnings of $99.1 million were achieved by the group in 1993, an increase of $59.6 million, or two and one-half times the $39.5 million reported in 1992. Much of the gain was experienced within the group's wood-based operations as markets responded to increasing demand exacerbated by the continued decline in West Coast timber supplies. As the year progressed, job markets improved and relatively low mortgage interest rates prompted an increasing number of buyers to make loan commitments. Housing starts for the year of approximately 1.28 million units were up almost 6 percent over 1992 and 25 percent over 1991, and by mid-fourth quarter stood at a pace of 17 percent above the year-earlier fourth period.

The following table provides information on sales volume and unit sales for each business unit.

Building Products	**1993**	1992	1991
Unit Sales		*(in millions of board feet)*	
Pine lumber	**484**	467	395
		(in millions of square feet)	
Fiber products	**440**	464	443
Particleboard	**319**	326	321
Plywood	**265**	250	253
Gypsum wallboard	**782**	621	601
Net Sales		*(in millions)*	
Pine lumber	**$153.8**	$120.9	$ 87.6
Fiber products	**62.9**	55.8	48.2
Particleboard	**81.3**	70.5	60.7
Plywood	**54.0**	45.2	36.9
Gypsum wallboard	**53.3**	36.6	33.1
Retail distribution	**60.0**	53.5	42.2
Other	**10.0**	8.8	2.4
For the year	**$475.3**	$391.3	$311.1

The group's sawmills continued to benefit from earlier investments in new technology and equipment with unit sales gaining 4 percent and 18 percent in 1993 and 1992, respectively. With increasing domestic demand, prices moved to much higher levels for the year-over-year comparisons, and by year-end several products had surpassed peak first-quarter levels. With the declining western resource, market share continues to shift to southern producers. Early in 1993 a new "finger-jointing" operation began production, providing the recovery of premium-grade lumber from trim waste and lower-grade products. Also during the third quarter, new equipment was added at one operation which improves lumber yields from small, crooked logs.

Plywood unit sales increased 6 percent over 1992, and demand for specialty products, a significant portion of production, remained firm. As with lumber, demand for commodity structural grade panels also advanced year-over-year but not at the same pace due to the growing market share of competitive oriented-strand board produced in the southeast. Exports of plywood have steadily increased and represented 37 percent of all shipments in 1993. An additional press and a state-of-the-art lay-up line were completed in early 1992. The mill had 265 million square feet of production in 1993, which was the design capacity.

By-product wood chips produced by the lumber and plywood operations are shipped to the Company's two east Texas paper mills, representing about 25 percent of their pine fiber requirements. Chips supplied to the fiber products operation from lumber manufacturing represent over half of its fiber needs.

The strong demand for hardboard siding products continued well into the fourth quarter of 1993 when the market began to correct for the growing availability of competitive products. Insulation products, representing about 42 percent of fiber

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products shipments, were also active as housing starts increased and commercial roofing markets gained strength. These positive market forces resulted in record earnings for this business unit. A $3.5 million capital project was completed which will significantly increase the capacity of TrimCraft, a line of engineered lumber substitute products, which has gained market acceptance as prices of traditional solid wood continue to rise.

Particleboard is produced primarily from dry by-products of lumber manufacturing and is shipped principally to fabricators of kitchen cabinets and ready-to-assemble furniture. During 1993, prices continued a quarter-to-quarter gain as demand levels outpaced supply, resulting in record earnings for the particleboard operations. Shipments in 1993 reflect a slight downturn in comparison to 1992 as one operation increased its 1993 product mix to include higher-margin items which have a slower production rate. Because of the continued growth projected for southern particleboard, the Board of Directors approved the construction of a $62 million particleboard facility to be located in Hope, Arkansas. Scheduled for completion in early 1996, the plant will be the Company's largest unit, adding 170 million square feet to capacity.

Gypsum wallboard markets strengthened through 1993, and both plants operated at capacity after the first quarter. Shipments increased 26 percent over 1992, and earnings were at the highest levels since 1987. Margins were further enhanced by an increasing complement of specialty items in the product mix.

TEMPLE-INLAND FINANCIAL SERVICES

The Company's Financial Services operations include a savings bank, mortgage banking, real estate development and insurance. The following selected financial information is provided to offer a detailed description of these operations.

Temple-Inland Financial Services
Selected Segment Information

Years ended December 31	1993	1992	1991
		(in thousands)	
INCOME			
Savings bank	$ 45,158	$ 44,857	$ 41,283
Mortgage banking	19,962	20,915	11,880
Real estate	(1,537)	(7,630)	(2,362)
Insurance	3,967	6,244	3,375
Income before taxes and accounting change	67,550	64,386	54,176
Taxes on income	18,838	10,946	9,210
Income before accounting change	48,712	53,440	44,966
Cumulative effect of accounting change	52,344	—	—
Net income	$ 101,056	$ 53,440	$ 44,966
ASSETS			
Savings bank	$8,799,557	$7,629,699	$7,253,562
Mortgage banking	131,827	113,670	212,094
Real estate	224,689	245,799	232,115
Insurance	30,994	19,182	16,620
Other activities	13,941	13,944	476
Eliminations	(67,755)	(44,289)	(190,331)
Total assets	$9,133,253	$7,978,005	$7,524,536
LIABILITIES			
Savings bank	$8,415,256	$7,315,850	$6,948,191
Mortgage banking	97,232	82,480	194,121
Real estate	125,771	149,400	140,736
Insurance	27,070	17,499	14,057
Other activities	24,003	4,445	9,282
Eliminations	(67,755)	(44,289)	(190,331)
Total liabilities	$8,621,577	$7,525,385	$7,116,056
EQUITY			
Savings bank	$ 384,301	$ 313,849	$ 305,371
Mortgage banking	34,595	31,190	17,973
Real estate	98,918	96,399	91,379
Insurance	3,924	1,683	2,563
Other activities	(10,062)	9,499	(8,806)
Total equity	$ 511,676	$ 452,620	$ 408,480

Savings Bank

The Company's Savings Bank, Guaranty Federal Bank, F.S.B., conducts its business through 124 banking centers located primarily in the eastern third of Texas, including Houston, Dallas, San Antonio and Austin. The primary business of the Savings Bank is to attract savings deposits from the public to invest in loans secured by mortgages on residential and other real estate or mortgage-backed securities.

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Presented below is selected financial information for the Savings Bank:

Savings Bank Summarized Financial Statement Information Years ended December 31	1993	1992	1991
		(in thousands)	
INCOME AND EXPENSES			
Net interest income	**$ 135,393**	$ 136,548	$ 120,392
Noninterest income	**19,461**	22,339	17,243
Noninterest expense	**104,866**	111,415	94,332
Income before taxes and accounting change	**45,158**	44,857	41,283
AVERAGE BALANCE SHEET			
Total earning assets	**8,720,719**	7,238,708	5,662,526
Mortgage-backed and investment securities	**4,978,017**	4,958,737	2,422,641
Loans receivable and mortgage loans held for sale	**2,116,420**	1,467,545	1,205,118
Securities purchased under resell agreements	**1,175,959**	251,726	409,249
Covered assets	**405,723**	479,410	1,103,978
Receivables from FSLIC	**5,200**	71,940	579,610
Deposits	**5,838,342**	6,128,005	5,419,496
FHLB advances and other borrowings	**2,726,943**	997,881	248,496
KEY RATIOS			
Yield on earning assets	**5.32%**	6.72%	8.75%
Cost of funds	**3.83%**	4.91%	6.62%
Net spread	**1.49%**	1.81%	2.13%

Net interest income for 1993 decreased $1.2 million from 1992. Although average earning assets increased $1.5 billion during 1993, the Savings Bank's net interest spread decreased 32 basis points, attributable to two factors: (1) a shortening of the maturities of the investment portfolio in anticipation of the acquisition of American Federal Bank, F.S.B. ("AFB") and (2) spread compression of mortgage-backed securities indexed to the Federal Home Loan Bank 11th District cost of funds ("COFI"). During 1993, COFI decreased 72 basis points while the Savings Bank's cost of funds decreased only 51 basis points.

Net interest income for 1992 increased $16.2 million from 1991 which was attributable to a rise in the average balance of interest earning assets. In general, however, the declining interest rate environment during 1992 reduced asset yields and liability costs. Because the Savings Bank's net asset yields declined faster than its cost of funds, the Savings Bank's interest rate spread decreased 32 basis points in 1992. Lower yields in 1992 resulted from the effect of declining market rates on repricing of adjustable rate assets and from paydown of higher-yielding assets.

The Savings Bank's noninterest income is composed primarily of service charges on deposits. Noninterest income in 1992 includes a $5.1 million gain recognized from the sale of substantially all its fixed-rate mortgage-backed securities. This sale was undertaken to allow the Savings Bank to reduce its interest rate risk exposure and more effectively match the maturities of its assets and liabilities.

With the decline in interest rates, the Savings Bank has experienced decreases in deposits as customers transfer funds to other investment vehicles in search of higher returns. The Savings Bank has maintained funding sources by assuming deposits through acquisitions and by utilizing other borrowings, principally securities sold under agreements to repurchase.

When the Company acquired Guaranty in 1988, $2.8 billion (almost 70 percent) of Guaranty's assets were composed of assets subject to yield assistance and loss coverage and certain notes and other receivables. Including assisted assets acquired from AFB, Covered Assets at December 31, 1993 total $664 million, or 7.5 percent of the Savings Bank's total assets. Note F on page 41 contains additional information regarding assistance activity.

Acquisitions

In November 1993, the Savings Bank purchased all of the outstanding stock of AFB for $155.7 million. AFB was a federal savings bank headquartered in Dallas, Texas with 30 banking centers in north and east Texas. To achieve operating economies, six of these banking centers were closed December 31, 1993, and the deposits were transferred to existing banking centers. Assets of AFB at acquisition totaled approximately $1.3 billion, principally $750 million in loans and $400 million in covered assets. In connection with the acquisition, a $20 million escrow was established as recourse available to the Savings Bank for certain post-closing claims it may have against the seller. See Note B on page 39 for additional information.

On August 20, 1993, the Savings Bank signed a definitive agreement to acquire certain assets and assume certain liabilities of First Federal Savings Bank of San Antonio ("First Federal") for approximately $42 million, subject to final adjustment. First Federal is a federal savings bank with ten banking centers in central Texas. Assets to be acquired are estimated to total $400 million and will consist primarily of loans and short-term investments. The transaction, subject to the approval of regulatory authorities, is expected to close in the second quarter of 1994.

Liquidity and Capital

The Savings Bank is required by the Office of Thrift Supervision ("OTS") to maintain average daily balances of liquid assets and short-term liquid assets in amounts equal to 5 percent and 1 percent, respectively, of net withdrawable deposits and short-term borrowings. The Savings Bank's average daily liquidity ratio for December 1993 was 7.5 percent.

The primary sources of funds for the Savings Bank are customer deposits, Federal Home Loan Bank advances, securities sold under repurchase agreements and principal repayments of mortgage-backed securities and loans. The Savings Bank uses its funding sources to support current loan demand, to fund deposit withdrawals, to repay borrowings and to maintain its liquidity.

OTS regulations require savings institutions to maintain certain minimum levels of capital. The Savings Bank's regulatory capital exceeded all applicable capital requirements at December 31,1993. Note M on page 43 contains additional information concerning capital requirements, including capital ratios of the Savings Bank.

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Mortgage Banking

Mortgage banking activity is conducted through Temple-Inland Mortgage Corporation, a full-service mortgage banker. The Company arranges financing of single-family mortgage loans, sells the loans into the secondary market (primarily FNMA, FHLMC and GNMA securities) and services the loans after the sale.

Mortgage loan originations for 1993 were $4.8 billion compared with $3.5 billion and $1.4 billion in 1992 and 1991, respectively. Mortgage loan originations are generated through a national network of 61 offices in 21 states. In 1993, production operations were expanded to new markets in the midwest and southeast and the mortgage loan servicing portfolio grew by 17 percent to a record high of $9.1 billion.

A summary of selected financial information for the years 1993, 1992 and 1991 is provided below.

Mortgage Banking
Operations Summary

Years ended December 31	1993	1992	1991
		(dollars in millions)	
Revenues	$ 104	$ 82	$ 51
Income before taxes	20	21	12
Portfolio roll-forward:			
Beginning servicing	$ 7,746	$ 6,477	$ 3,270
Acquisition of CMB, Inc.	—	—	2,047
New loans added, net of servicing released	3,302	2,516	1,677
Runoff	(1,981)	(1,247)	(517)
Ending servicing	$ 9,067	$ 7,746	$ 6,477
Portfolio growth rate	17.0%	19.6%	35.5%
Runoff factor	25.6%	19.3%	10.6%
Ending number of loans serviced	144,700	138,400	130,000

Real Estate Group

Real estate operations conducted by Lumbermen's Investment Corporation include development of residential subdivisions as well as management and sale of income properties. Land development projects include nine residential subdivisions in Austin, San Antonio and Dallas, Texas. At year end, land development inventory included 765 residential lots (680 under contract) and 4,561 acres of land. Lot sales for 1993 were 526 as compared to 487 in 1992 and 356 in 1991. Real estate activity has increased in the Company's primary markets.

The Company owns 20 commercial properties including two hotels, eight office buildings, three retail centers and seven parcels of commercial land.

Selected financial information related to these activities is shown below.

Real Estate Group
Operations Summary

Years ended December 31	1993	1992	1991
		(in thousands)	
Revenues:			
Residential	$ 8,056	$ 5,555	$ 4,197
Commercial	18,279	15,890	15,220
Interest and other	7,868	10,274	10,376
Subtotal	34,203	31,719	29,793
Sale of office building	—	-	4,741
	$34,203	$31,719	$34,534
Income (Loss) Before Taxes:			
Residential	$ (3,553)	$ (8,927)	$ (8,885)
Commercial	1,120	(722)	128
Interest and other	896	2,019	1,654
Subtotal	(1,537)	(7,630)	(7,103)
Sale of office building	—	-	4,741
	$ (1,537)	$ (7,630)	$ (2,362)

Shown below is the real estate group's pro rata share of the assets, liabilities and equity of joint ventures in which it is a partner.

Real Estate Group
Investment in Joint Ventures

Years ended December 31	1993	1992	1991
		(in thousands)	
Assets	$18,565	$31,737	$56,327
Liabilities (a)	17,512	32,808	53,127
Equity	1,053	(1,071)	3,200

(a) Although the Company's pro rata share of joint venture notes payable totals $15.0 million, the joint venture partners are in most instances jointly and severally liable for notes payable. The gross balance of these notes was $33.6 million at December 31, 1993. 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.

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Insurance

Timberline Insurance Agency, one of the largest insurance agencies in Texas, operates as a general agency providing a full range of insurance products including automobile, homeowners, business insurance, annuities, and life and health products. Timberline currently has offices in Austin, Baytown, Beaumont, El Paso and San Antonio, Texas.

A summary of revenues and income before taxes for the years 1993, 1992 and 1991 is shown below.

Insurance Operations Summary Years ended December 31	1993	1992	1991
		(in thousands)	
Revenues	**$21,052**	$21,826	$14,499
Income before taxes	**$ 3,967**	$ 6,244	$ 3,375

ENVIRONMENTAL MATTERS

The Company is committed to protecting the health and welfare of its employees, the public, and our environment and strives to maintain compliance with all state and federal environmental regulations in a cost effective manner. In recent modernization programs at some of its mills, most notably its mill at Evadale, Texas, the Company has used state-of-the-art technology for its air and water emissions. These forward-looking programs minimize the impact that changing regulations have on capital expenditures for environmental compliance.

Future expenditures for environmental control facilities will depend on changing laws and regulations and technological advances. Given these uncertainties, the Company estimates that capital expenditures for environmental purposes during the period 1994 through 1996 will average $15 million each year. In addition, the Company will spend approximately $15 million in 1994 to further reduce air emissions from its mill in Ontario, California.

On December 17, 1993, the U.S. Environmental Protection Agency ("EPA") published extensive proposed regulations governing air and water emissions from the pulp and paper industry ("Cluster Rules"). The Company anticipates that these proposed regulations will change before becoming effective. Due to the uncertainty of the final form of the Cluster Rules, it is impossible to predict the exact capital expenditures necessary for compliance. Therefore, the estimated expenditures disclosed above do not include expenditures that may be mandated by the Cluster Rules. Based upon its interpretation of the Cluster Rules as currently proposed, the Company estimates that compliance could require modifications at several facilities. Some of these modifications can be included in modernization projects that will have economic benefits to the Company. The extent of such benefits can increase these investments, but currently these expenditures are expected to range up to $200 million over the next five years.

CAPITAL RESOURCES AND LIQUIDITY

The Company's financial condition continues to be strong. Internally generated funds, existing credit facilities and the capacity to issue long-term debt are sufficient to fund projected capital expenditures, to service existing debt, to pay dividends and to meet normal working capital requirements.

A summary of capital expenditures is shown below.

	1993	1992	1991
		(in millions)	
Capital Expenditures			
Container and containerboard	**$ 87.5**	$214.9	$238.2
Bleached paperboard	**200.5**	87.9	103.4
Building products	**26.1**	16.1	15.3
Timber and timberlands	**22.5**	36.5	19.0
Other activities	**3.7**	3.3	2.4
Total manufacturing group	**$340.3**	$358.7	$378.3

Capital expenditures of approximately $490 million are projected for 1994. Commitments on construction projects totaled $244 million at the end of 1993.

Net interest expense incurred by the Parent Company is shown below.

	1993	1992	1991
		(in thousands)	
Parent Company Interest—Net			
Interest expense	**$ 81,912**	$ 72,255	$ 55,532
Interest income	**(446)**	(575)	(6,482)
Capitalized interest	**(12,510)**	(24,320)	(17,223)
Interest expense—net	**$ 68,956**	$ 47,360	$ 31,827

Interest expense increased in 1993 and 1992 due to the higher levels of debt outstanding, a decrease in the amount of capitalized interest and the conversion of certain debt to longer-term maturities. Parent Company interest paid during 1993, 1992 and 1991 was $80.9 million, $66.3 million and $51.5 million, respectively.

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SELECTED FINANCIAL DATA

For The Year	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
				(in millions, except per share data)						
Total revenues (1)	**$ 2,736**	$ 2,713	$ 2,507	$2,401	$1,943	$1,814	$1,642	$1,343	$1,282	$1,299
Manufacturing net sales	**2,101**	2,075	1,898	1,892	1,894	1,774	1,603	1,296	1,243	1,263
Net income (1) (2)	**117**	147	138	232	207	199	141	81	85	103
Capital expenditures:										
Manufacturing	**340**	359	378	324	260	219	139	103	184	130
Financial services	**14**	11	9	4	9	4	1	1	-	-
Depreciation and depletion:										
Manufacturing	**191**	167	158	140	126	112	94	79	66	63
Financial services	**6**	5	4	5	2	2	1	1	1	1
Earnings per share (1) (2)	**2.11**	2.65	2.51	4.20	3.75	3.58	2.34	1.32	1.40	1.69
Dividends per common share	**1.00**	.96	.88	.80	.58	.42	.35	.29	.26	.20
Average shares outstanding	**55.5**	55.5	55.2	55.4	55.3	55.7	60.3	61.1	60.8	60.6
Common shares outstanding at year end	**55.5**	55.2	54.9	54.6	54.9	55.2	55.3	60.7	60.5	60.3
At Year End										
Total assets (3)	**$11,959**	$10,766	$10,068	$7,834	$6,390	$2,247	$2,020	$1,894	$1,594	$1,510
Long-term debt:										
Parent company	**1,045**	964	864	501	399	417	416	366	248	251
Financial services	**76**	99	76	94	30	25	30	25	14	13
Ratio of total debt to total capitalization—parent company	**39%**	38%	37%	28%	24%	29%	31%	28%	23%	24%
Shareholders' equity	**1,700**	1,633	1,532	1,439	1,259	1,096	927	929	864	793

COMMON STOCK PRICES AND DIVIDEND INFORMATION

	1993			1992		
	Price Range			Price Range		
	High	Low	Dividends	High	Low	Dividends
First Quarter	**$52½**	**$45¾**	**$ .25**	$57½	$49⅛	$.24
Second Quarter	**47⅛**	**41⅜**	**.25**	55½	45	.24
Third Quarter	**45¾**	**40½**	**.25**	50⅞	45	.24
Fourth Quarter	**51¼**	**37¼**	**.25**	54¼	43⅞	.24
Year	**52½**	**37¼**	**1.00**	57½	43⅞	.96

(1) Includes operating results from consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.
(2) 1993 includes $50 million or $.90 per share from cumulative effect of accounting changes.
(3) Includes Savings Bank assets from consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

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SUMMARIZED STATEMENTS OF INCOME

Parent Company (Temple-Inland Inc.)

For the year	1993	1992	1991
		(in thousands)	
Revenues			
Net sales	**$2,100,705**	$2,075,352	$1,898,233
Financial services earnings	**67,550**	64,386	54,176
	2,168,255	2,139,738	1,952,409
Costs and Expenses			
Cost of sales	**1,806,964**	1,728,781	1,574,956
Selling and administrative	**198,894**	188,821	177,595
	2,005,858	1,917,602	1,752,551
Operating Income	**162,397**	222,136	199,858
Interest - net	**(68,956)**	(47,360)	(31,827)
Other	**2,773**	2,224	(1,262)
Income Before Taxes and Accounting Changes	**96,214**	177,000	166,769
Taxes on income	**28,864**	30,090	28,351
Income Before Accounting Changes	**67,350**	146,910	138,418
Cumulative effect of accounting changes	**50,000**	—	—
Net Income	**$ 117,350**	$ 146,910	$ 138,418

See the notes to the Parent Company summarized financial statements.

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SUMMARIZED BALANCE SHEETS

Parent Company (Temple-Inland Inc.)

At year end	1993	1992
	(in thousands)	
ASSETS		
Current Assets		
Cash	**$ 8,616**	$ 7,115
Receivables, less allowances of $7,415 in 1993 and $5,792 in 1992	**198,542**	214,117
Inventories:		
Work in process and finished goods	**77,686**	75,130
Raw materials	**180,380**	173,116
	258,066	248,246
Prepaid expenses	**12,458**	22,772
Total Current Assets	**477,682**	492,250
Investment in Financial Services	**487,578**	460,366
Property and Equipment		
Buildings	**376,301**	356,911
Machinery and equipment	**2,723,326**	2,589,942
Less allowances for depreciation	**(1,437,024)**	(1,288,001)
	1,662,603	1,658,852
Construction in progress	**238,721**	130,418
	1,901,324	1,789,270
Timber and timberlands—less depletion	**411,009**	382,231
Land	**33,802**	30,174
Total Property and Equipment	**2,346,135**	2,201,675
Other Assets	**92,373**	92,855
TOTAL ASSETS	**$ 3,403,768**	$ 3,247,146

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	1993	1992
	(in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	**$ 244,780**	$ 204,108
Federal income taxes payable	**43,883**	—
Employee compensation and benefits	**19,510**	17,207
Short-term borrowings	**24,134**	25,810
Current portion of long-term debt	**3,314**	3,404
Total Current Liabilities	**335,621**	250,529
Long-Term Debt	**1,044,775**	964,321
Deferred Income Taxes	**175,870**	331,361
Postretirement Benefits	**121,977**	—
Other Liabilities	**25,345**	68,296
Shareholders' Equity	**1,700,180**	1,632,639
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$3,403,768**	$3,247,146

See the notes to the Parent Company summarized financial statements.

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SUMMARIZED STATEMENTS OF CASH FLOWS

Parent Company (Temple-Inland Inc.)

For the year	1993	1992	1991
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	**$ 117,350**	$ 146,910	$ 138,418
Adjustments to reconcile net income to net cash:			
Cumulative effect of accounting changes	**(50,000)**	—	—
Depreciation and depletion	**191,102**	167,456	157,675
Deferred taxes	**(15,891)**	19,907	5,209
Unremitted earnings of affiliated companies	**(48,712)**	(53,440)	(44,966)
Receivables	**15,575**	(2,122)	9,681
Inventories	**(9,820)**	(23,032)	(19,148)
Prepaid expenses	**(6,524)**	7,831	(8,274)
Accounts payable and accrued expenses	**47,410**	22,683	36,651
Other assets and liabilities	**(4,262)**	17,757	(1,795)
Other	**8,761**	(23,619)	(6,132)
	244,989	280,331	267,319
Cash Provided by (Used for) Investments			
Capital expenditures	**(340,341)**	(358,668)	(378,268)
Sale of property and equipment, net	**18,659**	11,688	12,051
Manufacturing acquisitions, net	**—**	(6,706)	(27,972)
Investment in financial services	**42,000**	9,300	(140,100)
	(279,682)	(344,386)	(534,289)
Cash Provided by (Used for) Financing			
Additions to debt	**82,979**	308,086	753,507
Payments of debt	**(4,291)**	(199,596)	(437,802)
Construction funds held by trustees	**7,315**	(7,315)	—
Issuance of common stock for stock plans	**8,851**	9,456	7,156
Purchase of stock for treasury	**(3,319)**	(2,326)	(5,115)
Cash dividends paid to shareholders	**(55,341)**	(52,940)	(48,236)
	36,194	55,365	269,510
Net increase (decrease) in cash	**1,501**	(8,690)	2,540
Cash at beginning of year	**7,115**	15,805	13,265
Cash at end of year	**$ 8,616**	$ 7,115	$ 15,805

See the notes to the Parent Company summarized financial statements.

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NOTES TO THE PARENT COMPANY (TEMPLE-INLAND INC.) SUMMARIZED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Parent Company's (Temple-Inland Inc.) summarized financial statements include the accounts of Temple-Inland Inc. (the "Company") and its manufacturing subsidiaries. The Financial Services group, including a savings bank, mortgage banking and real estate development operations, are reflected in the financial statements on the equity basis. Refer to pages 36 through 43 for the Temple-Inland Financial Services summarized financial statements. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with the Temple-Inland Inc. consolidated financial statements.

INVENTORIES

Inventories are stated at the lower of cost or market.

Cost of inventories amounting to $86.2 million in 1993 and $91.2 million in 1992 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories of $171.9 million in 1993 and $157.0 million in 1992 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 $9.0 and $10.7 million higher than reported at year end 1993 and 1992, 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 as follows:

Classification	Estimated Useful Lives
Buildings	15 to 40 years
Machinery and equipment:	
Manufacturing and production equipment	3 to 20 years
Automobiles and aircraft	3 to 10 years
Office and other equipment	3 to 10 years

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 recoverable timber. The costs of seedlings and reforestation of timberlands are capitalized.

NOTE B - LONG-TERM DEBT

Long-term debt consists of the following:

	1993	1992
	(in thousands)	
Bank Loans—Weighted average interest rate was 3.24% in 1993	**$ 19,000**	$ —
Commercial Paper—Weighted average interest rate was 3.16% and 3.24% during 1993 and 1992, respectively	**52,500**	6,500
8.375% Notes Payable due 1996	**70,000**	70,000
8.73% to 9.0% Notes Payable due 1996 to 1998	**200,000**	200,000
9.0% Notes Payable due 2001	**200,000**	200,000
8.125% to 8.38% Notes Payable due 2006	**100,000**	100,000
7.25% Notes Payable due 2004	**100,000**	100,000
8.25% Debentures due 2022	**150,000**	150,000
Revenue Bonds due 2014—Average interest rate was 2.19% and 2.73% during 1993 and 1992, respectively	**34,500**	34,500
8% Revenue Bonds due through 2009	**11,665**	11,665
Other Revenue Bonds due through 2028, weighted average interest rate of 2.61% and 3.10% as of year end 1993 and 1992, respectively	**95,289**	76,440
Other indebtedness due through 2000, weighted average interest rate of 10.24% and 9.87% as of year end 1993 and 1992, respectively	**11,821**	15,216
	$1,044,775	$964,321

At January 1, 1994, $52.5 million in commercial paper and $19.0 million in bank loans were outstanding. These borrowings are supported by multi-year revolving credit agreements with banks and, accordingly, are classified as long-term debt. The credit agreements are for a total of $500 million with final maturities as of January 1996, and are available for general corporate use.

At year end 1993, property and equipment of approximately $44.9 million were subject to liens in connection with $61.2 million of debt.

Based on the Company's incremental borrowing rate for loans, notes and debentures with similar terms and maturities, the fair value of long-term debt is $1.2 billion on January 1, 1994.

Aggregate maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 1994–$3.3; 1995–$11.4; 1996–$237.2; 1997–$5.7; and 1998–$90.8. For an analysis of net interest expense, see page 29.

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SUMMARIZED STATEMENTS OF INCOME

Temple-Inland Financial Services Group

For the year	1993	1992	1991
		(in thousands)	
Interest income			
Mortgage-backed and investment securities	**$241,936**	$306,437	$196,698
Loans receivable and mortgage loans held for sale	**172,865**	152,388	138,347
Other earnings assets	**49,512**	18,948	38,614
Assisted Assets:			
Covered Assets (including FSLIC yield maintenance of $13,630 in 1993, $13,518 in 1992 and $93,482 in 1991)	**25,416**	36,078	99,892
FSLIC Resolution Fund notes receivable	**—**	—	38,757
Total interest income	**489,729**	513,851	512,308
Interest expense			
Deposits	**236,812**	309,596	356,419
Borrowed funds	**99,304**	48,800	30,855
Total interest expense	**336,116**	358,396	387,274
Net interest income	**153,613**	155,455	125,034
Provision for loan losses	**4,830**	2,615	2,278
Net interest income after provision for loan losses	**148,783**	152,840	122,756
Noninterest income			
Loan servicing fees	**29,137**	28,907	22,099
Loan origination and marketing	**44,756**	28,957	13,545
Other	**71,531**	66,116	60,984
Total noninterest income	**145,424**	123,980	96,628
Noninterest expense			
Compensation and benefits	**111,998**	87,009	57,356
Other (net of reimbursements from FSLIC of $24,073 in 1993, $68,001 in 1992 and $565,665 in 1991)	**114,659**	125,425	107,852
Total noninterest expense	**226,657**	212,434	165,208
Income before taxes and accounting change	**67,550**	64,386	54,176
Taxes on income	**18,838**	10,946	9,210
Income before accounting change	**48,712**	53,440	44,966
Cumulative effect of accounting change	**52,344**	—	—
Net Income	**$101,056**	$ 53,440	$ 44,966

See the notes to the Temple-Inland Financial Services Group summarized financial statements.

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SUMMARIZED BALANCE SHEETS

Temple-Inland Financial Services Group

At year end	1993	1992
		(in thousands)
ASSETS		
Cash	**$ 156,300**	$ 117,623
Mortgage loans held for sale	**630,110**	461,211
Mortgage-backed and investment securities	**4,407,258**	5,264,912
Loans receivable	**2,755,352**	1,343,279
Covered Assets	**664,257**	393,877
Other assets	**519,976**	397,103
TOTAL ASSETS	**$9,133,253**	$7,978,005
LIABILITIES		
Deposits	**$6,362,303**	$5,644,410
Securities sold under repurchase agreements	**1,570,680**	1,459,498
Advances from Federal Home Loan Bank	**154,082**	57,786
Other borrowings	**76,250**	99,111
Other liabilities	**458,262**	264,580
TOTAL LIABILITIES	**8,621,577**	7,525,385
SHAREHOLDER'S EQUITY	**511,676**	452,620
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$9,133,253**	$7,978,005

See the notes to the Temple-Inland Financial Services Group summarized financial statements.
Certain amounts have been reclassified to conform with current year's classification.

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SUMMARIZED STATEMENTS OF CASH FLOWS

Temple-Inland Financial Services Group

For the year	1993	1992	1991
		(in thousands)	
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	**$ 101,056**	$ 53,440	$ 44,966
Adjustments to reconcile net income to net cash:			
Cumulative effect of accounting change	**(52,344)**	—	—
Provision for amortization, depreciation and accretion	**18,687**	27,719	10,116
Gain on sales of securities	**(1,003)**	(5,113)	(31)
Receivables from FSLIC Resolution Fund	**(993)**	119,317	27,772
Mortgage loans held for sale	**(174,029)**	(192,085)	(81,605)
Other	**175,541**	68,896	(45,341)
	66,915	72,174	(44,123)
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Purchases of securities	**(295,317)**	(2,239,355)	(3,480,172)
Maturities of securities	**1,156,378**	1,306,135	421,033
Proceeds from sales of securities and loans	**24,148**	129,386	161,147
Loans originated or acquired net of principal collected on loans	**(669,741)**	(135,413)	(223,209)
Reduction in Covered Assets	**126,602**	472,843	575,233
Repayment of FSLIC Resolution Fund notes	**—**	—	1,063,648
Savings bank acquisitions, net	**(76,225)**	—	2,923,716
Mortgage banking acquisition	**—**	—	(21,226)
Capital expenditures	**(14,010)**	(11,075)	(9,088)
Other	**4,628**	(138)	(7,313)
	256,463	(477,617)	1,403,769
CASH PROVIDED BY (USED FOR) FINANCING			
Net decrease in deposits	**(310,120)**	(890,591)	(1,047,313)
Net increase (decrease) in securities sold under repurchase agreements and short-term borrowings	**110,882**	1,273,782	(414,744)
Additions to debt	**49,056**	600	23,592
Payments of debt	**(82,924)**	(8,090)	(68,652)
Contributions from (dividend to) Parent	**(42,000)**	(9,300)	140,100
Other	**(9,595)**	1,079	(3,634)
	(284,701)	367,480	(1,370,651)
Net increase (decrease) in cash	**38,677**	(37,963)	(11,005)
Cash at beginning of year	**117,623**	155,586	166,591
Cash at end of year	**$ 156,300**	$ 117,623	$ 155,586

See the notes to the Temple-Inland Financial Services Group summarized financial statements.

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NOTES TO THE TEMPLE-INLAND FINANCIAL SERVICES GROUP SUMMARIZED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Temple-Inland Financial Services Group (the "Group") summarized financial statements include savings bank, mortgage banking and real estate development activities and insurance operations. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with the Temple-Inland Inc. consolidated financial statements.

MORTGAGE LOANS HELD FOR SALE

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

MORTGAGE-BACKED AND INVESTMENT SECURITIES

Mortgage-backed and investment securities, all of which management has both the positive intent and ability to hold until maturity, are carried at cost, adjusted for amortization of premiums and accretion of discounts by a method which approximates the interest method over the estimated lives of the securities.

The specific identification method is used in determining gains or losses on sales of mortgage-backed and investment securities.

LOANS RECEIVABLE

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans receivable is credited to income as earned. The accrual of interest ceases when collection becomes doubtful. Premiums and discounts on loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Loan origination fees, net of certain direct origination and acquisition costs, are deferred and amortized using the interest method as an adjustment of the yield of the related loans. Any unamortized loan fees are credited to income in the event a loan is sold or repaid.

The allowance for loan losses is (1) increased by charges to income, (2) increased by the portion of the premium or discount related to credit risk on bulk purchases of loans, and (3) decreased by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Group's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.

FEDERAL INCOME TAXES

The Group is included in the consolidated income tax return filed by the Parent. Under an agreement with the Parent, the Group provides a current income tax provision which takes into account the separate taxable income of the Group. Deferred income taxes are recorded by the Group.

FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board ("FASB") Statement No. 107, "Disclosure About Fair Value of Financial Instruments", requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flows or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The carrying amounts of financial instruments with short-term maturities and/or variable rates of interest approximate those instruments' fair values.

NOTE B - ACQUISITIONS

SAVINGS BANK

On November 12, 1993, the Savings Bank completed the acquisition of all of the outstanding stock of AFB for a cash purchase price of approximately $155.7 million. Total assets of AFB at acquisition were approximately $1.3 billion which consisted primarily of residential and commercial mortgage loans and Covered Assets. In connection with the acquisition, a $20 million holdback escrow was established as recourse of the Savings Bank for certain post-closing claims it may have against the seller.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of AFB at the date of acquisition were adjusted to their estimated fair values, which approximated the purchase price. The operating results are included in the accompanying financial statements from the acquisition date.

The following table presents unaudited pro forma results of operations assuming AFB had been acquired on January 1, 1992. The pro forma information is based on the historical financial statements of the Group and AFB giving effect for certain pro forma adjustments. The pro forma information does not purport to be indicative either of the results of operations that would have occurred had the purchase been made on January 1, 1992, or of the results which may occur in the future.

For the year	**1993**	1992
	(in thousands)	
Interest income and noninterest income	**$719,422**	$755,893
Net income before cumulative effect of accounting change	**51,527**	53,534
Net income	**103,871**	53,534

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On August 20, 1993, the Savings Bank signed a definitive agreement to acquire certain assets and assume certain liabilities of First Federal for a cash purchase price of approximately $42 million, subject to final adjustment. Assets to be acquired are estimated to total $400 million and will consist primarily of loans and short-term investments. The transaction, subject to the approval of regulatory authorities, is anticipated to close in the second quarter of 1994.

During 1991, the Group purchased certain assets and assumed certain deposit and other liabilities of six failed savings institutions pursuant to various agreements with the Resolution Trust Corporation ("RTC"), summarized as follows:

	(in millions)
Deposit and other liabilities assumed	$3,256.4
Less assets purchased	315.6
Less premium bids paid by the Group	17.1
Cash and cash equivalents received from the RTC	$2,923.7

In connection with the acquisitions, the following assets were purchased: (a) cash and receivables from financial institutions, (b) investment grade securities and mortgage-backed securities, (c) certain loans, primarily mortgage loans and loans secured by deposits, and (d) any credit card, safe deposit, safekeeping and trust businesses conducted by the institutions.

MORTGAGE BANKING

In June 1991, the Group purchased all of the outstanding common stock of Capitol Mortgage Bankers, Inc. in a purchase transaction for $22 million. The portion of the purchase price attributable to the value of the servicing rights acquired was $15 million. In association with the purchase, the seller has provided the Group certain general indemnifications against future losses incurred in relation to recourse servicing obligations. The accompanying statements of income include the results of operations of the acquired entity from June 1, 1991, forward.

NOTE C - SECURITIES PURCHASED UNDER RESELL AGREEMENTS

The Group purchases securities under agreements to resell. The amounts advanced under these agreements represent short-term loans. The seller holds the securities underlying the agreements and records the Group's interest in such securities. The Group enters into an agreement only when the market value of the underlying collateral exceeds the face of the agreement and when the agreement matures in 30 days or less. The securities are valued daily and should the market value of the underlying securities decrease below the amount recorded as securities purchased under resell agreements, the counterparty is required to place an equivalent amount of additional securities in safekeeping in the Group's name.

At December 31, 1993, securities purchased under resell agreements totaled $20 million and are included in cash in the accompanying balance sheet. The securities underlying the agreements consisted of single-family residential loans. The agreements, purchased at par, matured on January 3, 1994, at which time the same securities were resold. At December 31, 1992, no securities purchased under resell agreements were outstanding. Securities purchased under resell agreements averaged approximately $1.2 billion and $252 million during 1993 and 1992, respectively, and the maximum amounts outstanding at any month-end during 1993 and 1992 were $925 million and $45 million, respectively.

NOTE D - MORTGAGE-BACKED AND INVESTMENT SECURITIES

Mortgage-backed and investment securities consist of the following at December 31, 1993:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Mortgage-backed securities:				
FNMA certificates	$2,346,959	$ 6,424	$(22,202)	$2,331,181
FHLMC certificates	397,814	842	(4,063)	394,593
GNMA certificates	6,076	344	—	6,420
Collateralized mortgage obligations	539,255	783	(6,395)	533,643
Private issuer pass-through securities	1,046,122	1,655	(9,134)	1,038,643
	4,336,226	10,048	(41,794)	4,304,480
Debt securities:				
U.S. Government (including agencies)	805	—	—	805
Corporate securities	1,175	70	—	1,245
Other	82	—	—	82
	2,062	70	—	2,132
Equity securities:				
Federal Home Loan Bank stock	68,873	—	—	68,873
Other	97	488	—	585
	68,970	488	—	69,458
	$4,407,258	$10,606	$(41,794)	$4,376,070

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Mortgage-backed and investment securities consist of the following at December 31, 1992:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Mortgage-backed securities:				
FNMA certificates	$2,672,285	$10,955	$(19,780)	$2,663,460
FHLMC certificates	460,830	985	(4,593)	457,222
GNMA certificates	6,361	291	—	6,652
Collateralized mortgage obligations	654,569	481	(4,673)	650,377
Private issuer pass-through securities	1,391,290	1,252	(18,860)	1,373,682
	5,185,335	13,964	(47,906)	5,151,393
Debt securities:				
U.S. Government (including agencies)	1,928	80	(3)	2,005
Corporate securities	11,079	65	(16)	11,128
Other	9,795	1,165	—	10,960
	22,802	1,310	(19)	24,093
Equity securities:				
Federal Home Loan Bank stock	56,392	—	—	56,392
Other	383	343	—	726
	56,775	343	—	57,118
	$5,264,912	$15,617	$(47,925)	$5,232,604

Fair values for mortgage-backed and investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The mortgage loans underlying mortgage-backed securities generally have contractual maturities ranging from 15 to 40 years, with principal and interest installments due monthly. The actual maturities of mortgage-backed securities may differ from the contractual maturities of the underlying loans because issuers or mortgagors may have the right to call or prepay their securities or loans, respectively.

Certain mortgage-backed and investment securities are guaranteed directly or indirectly by the U.S. Government. Other mortgage-backed securities which are not guaranteed by the U.S. Government or its agencies are senior subordinated securities rated AA or better by Moody's or Standard & Poors. The collateral underlying these securities is primarily residential properties located in California.

NOTE E - LOANS RECEIVABLE

Loans receivable consist of the following:

At year end	1993	1992
	(in thousands)	
Real estate mortgage	**$2,302,905**	$1,153,279
Construction and development	**643,653**	274,556
Commercial	**80,665**	25,451
Consumer and other	**404,151**	271,091
	3,431,374	1,724,377
Less:		
Unfunded portion of loans	**614,010**	320,625
Unearned discounts	**3,024**	9,319
Unamortized purchase discounts	**8,884**	28,123
Net deferred fees	**2,229**	2,280
Allowance for loan losses	**47,875**	20,751
	676,022	381,098
	$2,755,352	$1,343,279

Activity in the allowance for loan losses is as follows:

For the year	1993	1992	1991
		(in thousands)	
Balance, beginning of year	**$20,751**	$19,432	$ 1,954
Provision for loan losses	**4,830**	2,615	2,278
Additions related to acquisitions and bulk purchases of loans	**23,993**	1,419	16,944
Charge-offs, net of recoveries	**(1,699)**	(2,715)	(1,744)
Balance, end of year	**$47,875**	$20,751	$19,432

The fair value of loans receivable at December 31, 1993 and 1992 is approximately $2.8 billion and $1.4 billion, respectively. Variable-rate commercial loans reprice frequently and have no significant change in credit risk; therefore, the fair values are based on carrying values. Fair values for mortgage and consumer loans are estimated using discounted cash flow analysis. The discount rates and prepayment assumptions utilized represent those currently observed in the markets for comparable loan products. The carrying amount of accrued interest receivable approximates its fair value.

Real estate and construction loans are secured primarily by one- to four-family residential or commercial properties located in Texas.

NOTE F - COVERED ASSETS

In connection with the acquisition of Guaranty in 1988, the Company entered into an assistance agreement with the FSLIC. Under the terms of the Guaranty assistance agreement which expires in 1998, the FSLIC agreed to provide continuing financial assistance consisting of notes from the FSLIC, guaranteed yield on the book value of certain assets acquired from the FSLIC ("Covered Assets"), protection against losses on the book value of Covered Assets, and indemnification from certain claims and litigation. In connection with the acquisition of AFB (see Note B), the Group assumed the benefits and obligations of a similar existing assistance agreement with the FSLIC.

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Covered Assets managed under both the Guaranty and AFB assistance agreements are summarized as follows:

At year end	1993	1992
	(in thousands)	
Loans	**$421,660**	$267,475
Investments in real estate	**221,292**	72,761
Advances to and investments in subsidiaries	**15,120**	48,342
Other assets	**6,185**	5,299
	$664,257	$393,877

NOTE G - DEPOSITS

Deposits consist of the following:

At year end	1993		1992	
	Rate	**Amount**	Rate	Amount
		(dollars in thousands)		
Noninterest bearing demand	**—%**	**$ 224,965**	—%	$ 169,896
Interest bearing demand	**2.42%**	**1,518,860**	2.77%	1,276,336
Savings deposits	**2.50%**	**224,764**	3.00%	194,269
Time deposits	**4.91%**	**4,377,691**	5.33%	3,999,835
		6,346,280		5,640,336
Deposit premium		**16,023**		4,074
		$6,362,303		$5,644,410

Scheduled maturities of time deposits outstanding at December 31, 1993, are as follows:

Time deposits in amounts of:	$100,000 or more	Less than $100,000	Total
		(in thousands)	
3 months or less	**$ 91,444**	**$ 757,821**	**$ 849,265**
Over 3 through 6 months	**79,723**	**642,964**	**722,687**
Over 6 through 12 months	**96,864**	**805,136**	**902,000**
Over 12 months	**275,393**	**1,628,346**	**1,903,739**
	$543,424	**$3,834,267**	**$4,377,691**

The fair value of time deposits of approximately $4.5 billion and $4.1 billion at December 31, 1993 and 1992, respectively, is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of similar maturities. The fair values for other deposits, which have no defined maturities, are equal to the amounts payable on demand (i.e., their carrying amounts).

A summary of interest paid by the Group is shown below:

For the year	1993	1992	1991
		(in thousands)	
Interest on deposits	**$241,133**	$312,699	$360,016
Interest on borrowed funds	**99,182**	44,358	36,646
Total Interest Paid	**$340,315**	$357,057	$396,662

NOTE H - SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements were delivered to brokers/dealers, who retained such securities as collateral for the borrowings and have agreed to resell the same securities back to the Group at the maturities of the agreements. The agreements generally mature within one to thirty days.

Information concerning borrowings under repurchase agreements is summarized as follows:

	1993	1992
		(dollars in thousands)
At year-end:		
Weighted average interest rate	**3.25%**	3.50%
Mortgage-backed securities pledged to secure the agreements:		
Carrying value	**$1,641,535**	$1,524,505
Estimated market value	**1,629,628**	1,517,704
During the year:		
Average balance	**2,734,216**	972,500
Maximum month-end balance	**2,437,191**	1,571,406

NOTE I - ADVANCES FROM FEDERAL HOME LOAN BANK

Pursuant to collateral agreements with the Federal Home Loan Bank, advances are secured by a blanket floating lien on the Savings Bank's assets. The weighted average interest rate of the advances was 5.02 percent and 8.62 percent at December 31, 1993 and 1992, respectively. At December 31, 1993, the advances have calendar year maturity dates as follows (in millions): 1996–$100.0; 1997–$2.4; 1998–$2.6; 1999 and thereafter–$51.7. The fair value of the advances at December 31, 1993 and 1992 is approximately $163.5 million and $65.2 million, respectively, and is estimated using discounted cash flow analyses, based on current rates for similar types of borrowing arrangements.

NOTE J - OTHER BORROWINGS

Other borrowings consist of the following:

At year end	1993	1992	1991
		(in thousands)	
Short-term borrowings	**$ —**	$ —	$ 34,513
Long-term debt at varying rates which approximate prime, secured primarily by real estate	**76,250**	99,111	76,502
	$76,250	$99,111	$111,015

Aggregate maturities of the Group's long-term debt during the next five years are as follows (in millions): 1994–$8.6; 1995–$11.0; 1996–$35.8; 1997–$4.8; 1998–$.9; 1999 and thereafter–$15.2.

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NOTE K - LOAN SERVICING

The Group services real estate loans that are owned by independent investors. The Group serviced approximately 145,000 and 138,000 mortgage loans aggregating $9.1 and $7.7 billion as of December 31, 1993 and 1992, respectively.

The Group is required to advance, from its company funds, escrow and foreclosure costs for loans that it services. The majority of these advances are recoverable, except for certain amounts for loans serviced for GNMA, which are reserved. In addition, the Group assumes market risk of disposing of certain foreclosed VA loans. No significant losses were incurred during 1993 in connection with this risk.

NOTE L - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The Group enters into financial instruments with off-balance sheet risk in the normal course of business to reduce its exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, mandatory forward commitments, interest rate swaps, and other hedging instruments.

At December 31, 1993, the Group's commitments to originate mortgage loans totaled $340.3 million and commitments to sell mortgage loans totaled $891.7 million. To the extent mortgage loans at the appropriate rates are not available to fulfill these commitments, the Group is subject to market risk resulting from interest rate fluctuations.

At December 31, 1993, the Group has a swap agreement outstanding whereby the Group pays a fixed rate of 7.41 percent and receives a variable rate based on the three-month LIBOR on a notional principal amount of $40 million. Entering into interest rate swap agreements involves not only the risk of default by the other party, but also the market risk associated with changes in interest rates. The cost of terminating the swap agreement is estimated based on market quotations and approximated $1.2 million at December 31, 1993.

NOTE M - REGULATORY CAPITAL MATTERS

The Savings Bank is subject to certain regulatory capital requirements. The Savings Bank is required to maintain a minimum regulatory tangible capital ratio equal to 1.5 percent of adjusted total assets, a minimum 3 percent leverage capital ratio, and a minimum 8 percent risk-based capital ratio. Failure to meet these capital requirements exposes an institution to regulatory sanctions, including limitation on asset growth. At December 31, 1993, the Savings Bank met these capital requirements.

	Savings Bank		Regulatory Requirement	
	$	%	$	%
	(dollars in thousands)			
Tangible capital	$355,669	4.0%	$131,916	1.5%
Leverage capital	355,669	4.0%	263,832	3.0%
Risk-based capital	364,036	10.2%	284,384	8.0%

The Savings Bank is limited to dividend payments in any year of no more than 75 percent of net earnings without specific regulatory approval.

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CONSOLIDATED STATEMENTS OF INCOME

Temple-Inland Inc. and Subsidiaries

For the year	1993	1992	1991
		(in thousands)	
Revenues			
Manufacturing net sales	**$2,100,705**	$2,075,352	$1,898,233
Financial services revenues	**635,153**	637,831	608,936
	2,735,858	2,713,183	2,507,169
Costs and Expenses			
Manufacturing costs and expenses	**2,005,858**	1,917,602	1,752,551
Financial services expenses	**567,603**	573,445	554,760
	2,573,461	2,491,047	2,307,311
Operating Income	**162,397**	222,136	199,858
Parent company interest—net	**(68,956)**	(47,360)	(31,827)
Other	**2,773**	2,224	(1,262)
Income Before Taxes and Accounting Changes	**96,214**	177,000	166,769
Taxes on income	**28,864**	30,090	28,351
Income Before Accounting Changes	**67,350**	146,910	138,418
Cumulative effect of accounting changes	**50,000**	—	—
Net Income	**$ 117,350**	$ 146,910	$ 138,418
Earnings per Share:			
Before Accounting Changes	**$ 1.21**	$ 2.65	$ 2.51
Effect of Accounting Changes	**.90**	—	—
Earnings Per Share	**$ 2.11**	$ 2.65	$ 2.51

See the notes to the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Temple-Inland Inc. and Subsidiaries

For the year	1993	1992	1991
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	**$ 117,350**	$ 146,910	$ 138,418
Adjustments to reconcile net income to net cash:			
Cumulative effect of accounting changes	**(50,000)**	—	—
Depreciation and depletion	**196,853**	172,312	161,584
Deferred taxes and tax credits	**(2,488)**	19,907	5,209
Amortization and accretion	**12,936**	22,863	6,207
Receivable from FSLIC Resolution Fund	**(993)**	119,317	27,772
Receivables	**15,575**	(2,122)	9,681
Inventories	**(183,849)**	(215,117)	(100,753)
Accounts payable and accrued expenses	**49,175**	22,683	36,651
Other	**157,345**	65,752	(61,573)
	311,904	352,505	223,196
Cash Provided by (Used for) Investments			
Capital expenditures	**(354,351)**	(369,743)	(387,356)
Sale of property and equipment, net	**18,659**	11,688	12,051
Purchases of investments	**(295,317)**	(2,239,355)	(3,480,172)
Maturities of investments	**1,156,378**	1,306,135	421,033
Proceeds from sales of investments and loans	**24,148**	129,386	161,147
Loans originated net of principal collected	**(669,741)**	(135,413)	(223,209)
Reduction in Covered Assets	**126,602**	472,843	575,233
Repayment of FSLIC Resolution Fund notes	**—**	—	1,063,648
Savings bank acquisitions	**(76,225)**	—	2,923,716
Manufacturing acquisitions, net	**—**	(6,706)	(27,972)
Mortgage banking acquisition	**—**	—	(21,226)
Investment in financial services	**—**	—	(15,100)
Other	**4,628**	(138)	7,787
	(65,219)	(831,303)	1,009,580
Cash Provided by (Used for) Financing			
Additions to debt	**132,035**	308,686	777,099
Payments of debt	**(87,215)**	(207,686)	(506,454)
Net increase (decrease) in short-term borrowings	**110,882**	1,273,782	(414,744)
Purchase of stock for treasury	**(3,319)**	(2,326)	(5,115)
Cash dividends paid to shareholders	**(55,341)**	(52,940)	(48,236)
Net decrease in deposits	**(310,120)**	(890,591)	(1,047,313)
Other	**6,571**	3,220	3,522
	(206,507)	432,145	(1,241,241)
Net increase (decrease) in cash	**40,178**	(46,653)	(8,465)
Cash at beginning of year	**124,738**	171,391	179,856
Cash at end of year	**$ 164,916**	$ 124,738	$ 171,391

See the notes to the consolidated financial statements.

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CONSOLIDATING BALANCE SHEETS

Temple-Inland Inc. and Subsidiaries

At year end 1993	Parent Company	Financial Services	Consolidated
		(in thousands)	
ASSETS			
Cash	$ 8,616	$ 156,300	$ 164,916
Investments	—	4,407,258	4,407,258
Covered assets	—	664,257	664,257
Loans receivable	—	2,755,352	2,755,352
Trade and other receivables	198,542	—	198,542
Inventories	258,066	630,110	888,176
Property and equipment	2,346,135	37,405	2,383,540
Other assets	104,831	482,571	497,219
Investment in affiliates	487,578	—	—
TOTAL ASSETS	$3,403,768	$9,133,253	$11,959,260
LIABILITIES			
Deposits	$ —	$6,362,303	$ 6,362,303
Securities sold under repurchase agreements and Federal Home Loan Bank advances	—	1,724,762	1,724,762
Other liabilities	360,966	458,262	812,214
Long-term debt	1,044,775	76,250	1,121,025
Deferred income taxes	175,870	—	116,799
Postretirement benefits	121,977	—	121,977
TOTAL LIABILITIES	$1,703,588	$8,621,577	$10,259,080
SHAREHOLDERS' EQUITY			
Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued			—
Common stock—par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61,390
Additional paid-in capital			296,893
Retained earnings			1,482,093
			1,840,376
Cost of shares held in the treasury: 5,908,173 shares			(140,196)
TOTAL SHAREHOLDERS' EQUITY			1,700,180
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$11,959,260

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CONSOLIDATING BALANCE SHEETS

Temple-Inland Inc. and Subsidiaries

At year end 1992	Parent Company	Financial Services	Consolidated
		(in thousands)	
ASSETS			
Cash	$ 7,115	$ 117,623	$ 124,738
Investments	—	5,264,912	5,264,912
Covered assets	—	393,877	393,877
Loans receivable	—	1,343,279	1,343,279
Trade and other receivables	214,117	—	214,117
Inventories	248,246	461,211	709,457
Property and equipment	2,201,675	26,340	2,228,015
Other assets	115,627	370,763	487,110
Investment in affiliates	460,366	—	—
TOTAL ASSETS	$3,247,146	$7,978,005	$10,765,505
LIABILITIES			
Deposits	$ —	$5,644,410	$ 5,644,410
Securities sold under repurchase agreements and Federal Home Loan Bank advances	—	1,517,284	1,517,284
Other liabilities	318,825	256,230	568,029
Long-term debt	964,321	99,111	1,063,432
Deferred income taxes	331,361	8,350	339,711
TOTAL LIABILITIES	$1,614,507	$7,525,385	$ 9,132,866
SHAREHOLDERS' EQUITY			
Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued			—
Common stock—par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61,390
Additional paid-in capital			295,369
Retained earnings			1,420,084
			1,776,843
Cost of shares held in the treasury: 6,138,884 shares			(144,204)
TOTAL SHAREHOLDERS' EQUITY			1,632,639
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$10,765,505

See the notes to the consolidated financial statements.
Certain amounts have been reclassified to conform with current year's classification.

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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 December 29, 1990	$61,390	$298,188	$1,235,932	$(156,194)
Net income	—	—	138,418	—
Dividends paid on common stock—$.88 per share	—	—	(48,236)	—
Stock issued for stock plans—450,944 shares reissued from treasury at cost	—	(3,283)	—	10,439
Stock reacquired for treasury—126,318 shares at cost	—	—	—	(5,115)
Balance at December 28, 1991	$61,390	$294,905	$1,326,114	$(150,870)
Net income	—	—	146,910	—
Dividends paid on common stock—$.96 per share	—	—	(52,940)	—
Stock issued for stock plans—384,192 shares reissued from treasury at cost	—	464	—	8,992
Stock reacquired for treasury—47,431 shares at cost	—	—	—	(2,326)
Balance at January 2, 1993	$61,390	$295,369	$1,420,084	$(144,204)
Net income	—	—	117,350	—
Dividends paid on common stock—$1.00 per share	—	—	(55,341)	—
Stock issued for stock plans—310,088 shares reissued from treasury at cost	—	1,524	—	7,327
Stock reacquired for treasury—79,377 shares at cost	—	—	—	(3,319)
Balance at January 1, 1994	$61,390	$296,893	$1,482,093	$(140,196)

See the notes to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles and with current financial reporting requirements. However, because certain assets and liabilities are in separate corporate entities, the consolidated assets are not available to satisfy all consolidated liabilities.

The consolidated financial statements include the accounts of Temple-Inland Inc. (the "Company") and all subsidiaries in which the Company has more than a 50 percent equity ownership. All material intercompany amounts and transactions have been eliminated.

Included as an integral part of the consolidated financial statements are separate summarized financial statements and notes for the Company's primary business groups as well as the significant accounting policies unique to each group.

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 55,528,000, 55,535,000 and 55,248,000 in 1993, 1992 and 1991, respectively.

NOTE B - STOCK OPTION AND PURCHASE PLANS

The Company has established stock option plans for key employees and directors. The plans provide for the granting of incentive stock options and/or nonqualified stock options, and permit the grant of stock appreciation rights with all or part of any options so granted.

Options for 741,379, 733,501 and 854,689 shares were exercisable at year end 1993, 1992 and 1991, respectively. An additional 1,990,000, 1,262,665 and 1,427,931 shares of common stock were available for grants at year end 1993, 1992 and 1991, respectively.

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

	Common Stock	
	Number of Shares	Price Range Per Share
Outstanding at December 29, 1990	1,802,664	$ 8-$33
Granted	283,146	$16-$46
Exercised	(525,345)	$ 8-$33
Forfeited	(32,466)	$22-$36
Outstanding at December 28, 1991	1,527,999	$ 8-$46
Granted	204,519	$36-$54
Exercised	(359,972)	$ 8-$36
Forfeited	(41,287)	$22-$54
Outstanding at January 2, 1993	1,331,259	$12-$54
Granted	288,312	$37-$51
Exercised	(213,043)	$15-$36
Forfeited	(12,072)	$28-$54
Outstanding at January 1, 1994	1,394,456	$12-$54

Additionally, a restricted stock plan provides for a maximum of 300,000 shares of common stock to be reserved for awards at the discretion of the Board of Directors. At year end 1993, awards of 106,463 shares of common stock were outstanding at an average price of $43.64 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.

In February 1994, options to purchase 267,696 shares of stock at an average price of $52.15 were granted, and 33,868 were awarded under the restricted stock plan.

NOTE C - PENSION PLANS

The Company and its subsidiaries have several pension plans covering substantially all employees. Plans covering salaried and nonunion 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.

A summary of the components of net pension cost in 1993, 1992 and 1991 follows:

	1993	1992	1991
Charges (Credits)		*(in millions)*	
Service cost—benefits earned during the period	**$ 9.6**	$ 9.5	$ 9.2
Interest cost on projected benefit obligation	**25.7**	24.7	23.3
Actual return on plan assets	**(59.0)**	(28.4)	(76.1)
Net amortization and deferral	**19.3**	(10.1)	45.6
Net pension (credit) charge	**$ (4.4)**	$ (4.3)	$ 2.0

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The following assumptions were used to measure net periodic pension cost for the defined benefit pension plans:

For the years	1993	1992	1991
Discount rate	7.25%	8.50%	9.00%
Expected long-term rate of return	9.00%	9.00%	9.00%
Average increase in compensation levels	4.25%	5.50%	6.00%

The impact of lowering the discount rate will not have a material effect on future earnings. The status of employee pension benefit plans at year end 1993 and 1992 is summarized below:

	1993	1992
	(in millions)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 327.2	$ 235.3
Nonvested benefits	29.5	23.2
Accumulated benefit obligation	$ 356.7	$ 258.5
Projected benefit obligation for service rendered to date	$(389.6)	$(302.0)
Plan assets at fair value, primarily stocks and bonds	435.0	393.2
Plan assets in excess of projected benefit obligation	45.4	91.2
Prior service cost not yet recognized in net periodic pension cost	(.2)	(.9)
Unrecognized net (gain) loss from past experience different from that assumed	23.8	(21.9)
Unrecognized net asset at beginning of period, less amortization to date	(31.4)	(35.1)
Net pension asset included in the balance sheet	$ 37.6	$ 33.3

The assets of the plans at January 1994 include 380,998 shares of common stock of the Company having a market value of $19.2 million at that date.

NOTE D - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

In 1993 the Company adopted FASB Statement No. 106, "Employer Accounting for Postretirement Benefits Other than Pensions". The Company elected to immediately recognize the cumulative effect of the change in accounting for postretirement benefits of $75 million ($115 million liability net of a deferred tax asset of $40 million), or $1.35 per share, which represents the accumulated postretirement benefit obligation ("APBO") existing at adoption. The Company provides these benefits to eligible salaried and hourly employees who reach retirement age while employed by the Company.

Summary information on the Company's plan as of January 1, 1994 is as follows (in millions):

Accumulated Postretirement Benefit Obligation	
Retirees	$ 64.1
Active participants, eligible to retire	7.9
All other participants	31.3
Accrued postretirement benefit cost	103.3
Plus unrecognized net gains	18.6
Postretirement benefit liability	$121.9

The components of net postretirement benefit costs for 1993 are as follows:

Service costs for benefits	$ 1.7
Interest cost	9.2
Net postretirement charge	$ 10.9

The discount rate used in determining the APBO as of January 1, 1994 was 7.25 percent. The assumed health care cost trend rate used in measuring the APBO was 12 percent in 1993, grading down to 6.75 percent in years 2007 and later. The assumptions at adoption included an 8 percent discount rate and health care trend rates beginning at 14 percent and declining to 8 percent in 2004 and thereafter. If the health care cost trend rate assumptions were increased by one percent, the APBO as of January 1, 1994 would be increased by 10 percent. The effect of the change on the components of service cost and interest costs of the net periodic postretirement costs for 1993 would be an increase of 11 percent.

NOTE E - TAXES ON INCOME

Taxes on income from continuing operations consisted of the following:

	Current	Deferred
	(in thousands)	
1993		
Federal	$67,879	$(45,086)
Investment tax credit deferred	—	(3,005)
State and other	9,076	—
	$76,955	$(48,091)
1992		
Federal	$ 17,517	$ 10,038
Investment tax credit deferred	—	(3,482)
State and other	6,017	—
	$ 23,534	$ 6,556
1991		
Federal	$ 23,447	$ 7,257
Investment tax credit deferred	—	(4,154)
State and other	2,323	(522)
	$ 25,770	$ 2,581

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Significant components of the Company's consolidated deferred tax assets and liabilities as of January 1, 1994 are as follows:

	(in thousands)
Deferred Tax Liabilities:	
Depreciation	**$ 234,444**
Depletion	**38,953**
Pensions	**12,286**
Total deferred tax liabilities	**285,683**
Deferred Tax Assets:	
Alternative minimum tax credits	**128,619**
Assets with excess tax basis	**115,500**
Net operating loss carryforwards	**102,059**
OPEB obligations	**42,665**
Other	**11,541**
Total deferred tax assets	**400,384**
Valuation allowance for deferred tax assets	**(231,500)**
Net deferred tax assets	**168,884**
Net deferred tax liabilities	**$ 116,799**

The components of the provision for deferred income taxes were as follows:

	1992	1991
	(in thousands)	
Depreciation	$15,703	$ 14,882
Investment tax credits	(3,482)	(4,154)
Pension expense	1,238	1,645
Other employee benefit plans	(606)	2,060
Other—net	(6,297)	(11,852)
	$ 6,556	$ 2,581

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

	1993	1992	1991
		(in thousands)	
Taxes on income at statutory rate	**$ 33,675**	$ 60,180	$ 56,701
Book benefit of FSLIC assistance and other permanent items	**(10,882)**	(32,625)	(26,519)
Investment tax credits	**(3,005)**	(3,482)	(4,154)
State and foreign taxes	**9,076**	6,017	2,323
	$ 28,864	$ 30,090	$ 28,351

Effective January 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes", whereby the Company is required to adopt the liability method for computing deferred income taxes.

The cumulative effect of adopting FASB Statement No. 109 as of January 1993 increased net earnings by $125 million, or $2.25 per share. As permitted under the new rules, prior years' financial statements have not been restated.

Income tax payments, net of refunds received, were $19 million, $(2) million and $3 million during 1993, 1992 and 1991, respectively.

Investment tax credits were deferred and are being amortized as a reduction of income tax expense over the estimated useful lives of the related assets.

Temple-Inland and Guaranty have net operating loss carryforwards which if utilized could result in tax savings of $64 million and $38 million, respectively, at December 1993. If unused, these carryforwards expire through the year 2006. The realization of Guaranty's loss carryforwards is limited to the future taxable income of Guaranty. The Company's alternative minimum tax credits may be carried forward indefinitely.

As a result of the Omnibus Budget Reconciliation Act of 1993, the Company will pay the government $45 million in 1994 for 1991 and 1992 deductions that this legislation eliminated. This payment will have no impact on future net income and the Company will continue to receive other benefits from its ownership of Guaranty that will reduce its 1994 cash tax payments.

NOTE F - BUSINESS SEGMENT INFORMATION

Refer to "Business Segments" on page 23 for information relating to Revenues and Income Before Taxes, and page 29 for information relating to Capital Expenditures for the principal segments of business for the three years 1993, 1992 and 1991.

Additional business segment information is presented below:

For the year	**1993**	1992	1991
		(in millions)	
Identifiable Assets			
Container and containerboard	**$ 1,575.7**	$ 1,615.2	$ 1,463.7
Bleached paperboard	**523.2**	450.7	393.8
Building products	**300.0**	216.8	203.0
Timber and timberlands	**453.7**	419.8	382.8
Corporate and other activities	**63.6**	84.3	109.7
	2,916.2	2,786.8	2,553.0
Financial services	**9,133.3**	7,978.7	7,515.5
Reclassifications and eliminations	**(90.2)**	—	—
Total	**$11,959.3**	$10,765.5	$10,068.5
Depreciation and Depletion			
Container and containerboard	**$ 112.5**	$ 97.5	$ 87.4
Bleached paperboard	**40.1**	32.1	29.9
Building products	**22.6**	22.7	22.4
Timber and timberlands	**12.7**	12.0	15.1
Other activities	**3.2**	3.2	2.9
	191.1	167.5	157.7
Financial services	**5.8**	4.8	3.9
Total	**$ 196.9**	$ 172.3	$ 161.6

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NOTE G - SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Selected quarterly financial results for the years 1993 and 1992 are summarized below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions except per share amounts)			
1993				
Total revenues	**$682.8**	**$702.6**	**$681.0**	**$669.4**
Manufacturing net sales	**536.7**	**543.7**	**518.6**	**501.7**
Manufacturing gross profit	**87.7**	**76.6**	**67.3**	**62.1**
Financial services operating income before taxes and accounting change	**17.0**	**18.5**	**16.5**	**15.5**
Net income:				
Net income before accounting changes	**28.0**	**20.9**	**11.4**	**7.0**
Cumulative effect of accounting changes	**50.0**	**—**	**—**	**—**
Net income	**78.0**	**20.9**	**11.4**	**7.0**
Earnings per share:				
Before accounting changes	**.50**	**.38**	**.21**	**.12**
Effect of accounting changes	**.90**	**—**	**—**	**—**
Earnings per Share	**1.40**	**.38**	**.21**	**.12**
1992				
Total revenues	$ 658.0	$ 684.4	$ 672.2	$ 698.6
Manufacturing net sales	485.5	523.5	521.7	544.7
Manufacturing gross profit	82.0	97.9	87.9	78.8
Financial services operating income before taxes	19.2	18.0	16.2	11.0
Net income	34.8	47.7	39.2	25.2
Earnings per share	.63	.85	.71	.46

NOTE H - SHAREHOLDER RIGHTS PLAN

During 1989, the Board of Directors adopted a Shareholder Rights Plan in which one preferred stock purchase right ("the Right") was declared as a dividend for each common share outstanding. Each one-half Right entitles shareholders to purchase, under certain conditions, one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of $200. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the common shares or commences a tender or exchange offer, upon consummation of which such person or group would beneficially own 25 percent or more of the common shares. The Company will generally be entitled to redeem the Rights at $.01 per Right at any time until the 10th business day following public announcement that a 20 percent position has been acquired. The Rights will expire on February 20, 1999.

NOTE I - COMMITMENTS AND CONTINGENCIES

There are pending against the Company and its subsidiaries lawsuits, claims and environmental matters 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.

See page 29 for a discussion of commitments on construction projects.

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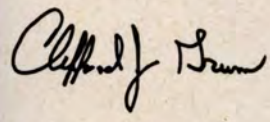
MANAGEMENT REPORT ON FINANCIAL STATEMENTS

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.

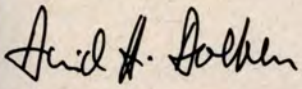
The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied 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 & Young, 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
Chairman of the Board and
Chief Executive Officer



David H. Dolben
Vice President and
Chief Accounting Officer

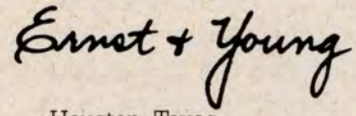
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TEMPLE-INLAND INC.:

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of January 1, 1994 and January 2, 1993, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 1, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Temple-Inland Inc. and subsidiaries at January 1, 1994 and January 2, 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 1, 1994, in conformity with generally accepted accounting principles.

As discussed in Notes D and E to the consolidated financial statements, in 1993 the Company changed its method of accounting for postretirement benefits other than pensions and income taxes.



Houston, Texas
February 10, 1994

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TRANSFER AGENT AND REGISTRAR

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500

INDEPENDENT ACCOUNTANTS

Ernst & Young
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, 1994 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.

NUMBER OF SHAREHOLDERS

As of December 31, 1993, there were 8,641 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 First Chicago Trust Company of New York, 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 First Chicago Trust Company of New York, Dividend Reinvestment Plans, P.O. Box 13531, Newark, New Jersey 07188-0001.

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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