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Using Forest Products to enhance our quality of living—naturally.

TEMPLE-INLAND 1994 ANNUAL REPORT

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About our cover:

Forests

Our vast forestlands in Texas, Louisiana, Georgia and Alabama represent an abundant renewable natural resource while also improving the environment.

Building Products

Lumber, plywood, particleboard, hardboard paneling and gypsum products enhance our lives and are products of our building products group.

Financial Services

Our financial services group provides mortgages and other diversified banking products that help people realize their dreams.



Bleached Paperboard

Plates, cups, office supplies, packaging and commercial papers are just a few of the many products people use every day—all made from bleached paperboard we supply.

Corrugated Container

Corrugated boxes, whether white, brown or a myriad of colors—all made from our containerboard—are still the best way to carry goods to market and into our lives.

About Our Company

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

The three major subsidiaries of the Company operate four distinct business units: Inland Container Corporation, our corrugated container group; Temple-Inland Forest Products Corporation, our bleached paperboard and building products groups; and Temple-Inland Financial Services Inc., our financial services group, which includes Guaranty Federal Bank, F.S.B., Temple-Inland Mortgage Corporation, Lumbermen's Investment Corporation and Timberline Insurance Managers Inc.

Inland Container Corporation currently operates seven mills in the U.S., four of which are 100% recycle mills, and 46 corrugated box and specialty converting plants throughout the U.S. and in Puerto Rico, Mexico and South America. In 1994, this group produced 2.6 million tons of containerboard (linerboard and corrugating medium), and shipped 2.1 million tons of corrugated boxes. The Company ranks among the top three in the United States in both containerboard and corrugated box production.

Temple-Inland's bleached paperboard production is concentrated in one large mill located in Evadale, Texas. Paper produced there is used in four distinct market segments: food service containers, office supplies, packaging and commercial printing. In 1994, this mill produced over 515,000 tons of paperboard and in 1995 will complete a modernization and expansion program that will add 200,000 tons of production.

The Company's building products group produces a wide range of building materials including lumber, plywood, gypsum wallboard, particleboard and fiberboard. This group had a record year in 1994 in both revenues and earnings.

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 and operates 123 branches in Dallas, Fort Worth, Houston, Austin, San Antonio and surrounding areas. With over $8.7 billion in assets, it is the fifth largest financial institution in Texas, and the largest not owned by an out-of-state bank holding company.

Temple-Inland Mortgage Corporation operates nationally, and at year-end 1994, was servicing a mortgage portfolio of $10.1 billion.

Lumbermen's Investment Corporation is involved in real estate development projects in Texas, while Timberline Insurance is operated as a general insurance agency as well as serving the Company's insurance needs.

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)*

	1994	1993	Percent Increase (Decrease)
Total Revenues	$2,938	$ 2,736	7 %
Manufacturing Net Sales	$2,306	$ 2,101	10 %
Operating Income	$ 256	$ 163	57 %
Net Income	$ 131	$ 117[a]	12 %
Earnings Per Share	$ 2.35	$ 2.11[a]	11 %
Dividends Per Share	$ 1.02	$ 1.00	2 %
Shareholders' Equity	$1,783	$ 1,700	5 %
Book Value Per Share	$31.84	$ 30.63	4 %
Average Shares Outstanding	55.9	55.5	1 %
Common Shares Outstanding at Year End	56.0	55.5	1 %

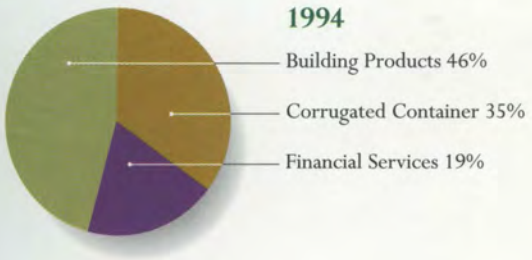
[a] *Includes $50 million or $.90 per share from cumulative effect of accounting changes.*

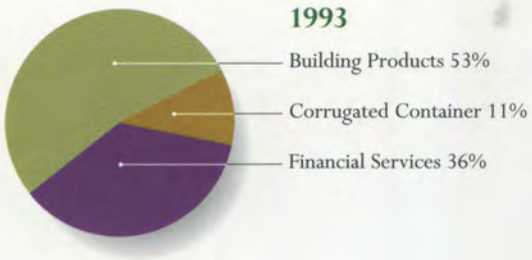
Selected Business Segment Data *(in millions)*

	1994	1993	Percent Increase (Decrease)
Manufacturing Net Sales			
Corrugated container	$1,438	$1,249	15 %
Bleached paperboard	$ 299	$ 319	(6)%
Building products	$ 549	$ 475	16 %
Operating Income			
Corrugated container	$ 102	$ 21	386 %
Bleached paperboard	$ (22)	$ (12)	(83)%
Building products	$ 133	$ 99	34 %
Financial services	$ 56	$ 68	(17)%

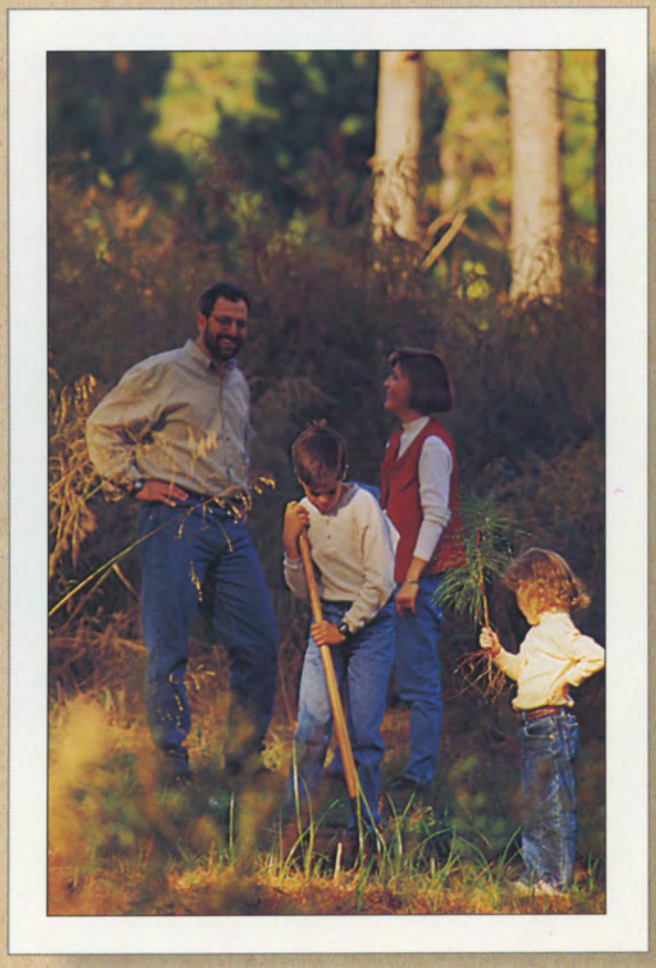
Combined Operating Earnings

Combined operating earnings for Temple-Inland Inc. in 1994 and 1993 totalled $256 million and $163 million respectively. These charts show the percentage contributed by each of the Company's operating groups. The bleached paperboard group did not contribute to operating earnings in either year.





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Meet the Temple-Inland family. As you follow them through this annual report, you will be introduced to the wide variety of Temple-Inland products and services that enhance people's lives every day.

You'll also learn that Temple-Inland's products and services have their foundation in the land and its natural resources. Our forest is not only our most abundant renewable resource, it is a primary element in every Temple-Inland business segment.

But in the end, it's people that make the difference in the success of our business — from our employees to the people who purchase the products we supply. Follow our family for a closer look at our successes for 1994.

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To our Shareholders

1994 WAS AN ENCOURAGING YEAR FOR TEMPLE-INLAND AS RECOVERY BEGAN IN BOTH OF OUR PAPER MARKETS AND RESIDENTIAL CONSTRUCTION ACTIVITY IMPROVED THROUGHOUT THE FIRST HALF OF THE YEAR BEFORE LEVELING OUT.

Earnings per share of $2.35 almost doubled our 1993 earnings per share of $1.21 (before accounting changes). More significantly, earnings improved each quarter with a steady progression from $.41 in the first quarter to $.87 per share in the fourth quarter.

Revenues of $2.9 billion rose 7% over last year.

A complete review of operations, including an analysis of financial information, is included beginning on page 25.

The recovery of corrugated container demand, which began in the fall of 1993, continued throughout 1994 with industry shipments up 5.4%, again exceeding the growth rate of the U.S. economy. Demand accelerated throughout the year. Although our production of containerboard was at record levels, inventories dropped to critical lows affecting our ability to meet customers' demands for corrugated boxes.

During 1992 and most of 1993, corrugated box market conditions were unfavorable and substantial discounting occurred in the pricing of both containerboard and shipping containers. In the fourth quarter of 1993, we began a margin improvement program that continued throughout 1994. On average, the selling price for corrugated boxes recovered about 18% during 1994.

Productivity programs established in the past two years continued to reduce costs from our corrugated system, and unit costs were below 1993 levels except for the price of old corrugated containers (OCC). Temple-Inland pioneered the use of this material as a source of fiber in many of the Company's paper mills. OCC now accounts for about 42% of our total raw material in these grades of containerboard. We used over 1.2 million tons of OCC last year, and plan to convert a similar amount in 1995. By the third quarter of 1994, the cost of OCC had nearly tripled from the first of the year, before moderating somewhat in the fourth quarter. These increased costs reduced earnings by nearly $50 million. Hopefully, the increased price will encourage higher recovery levels of these containers, and pricing will be less volatile in 1995. However, prices have already reached a new record level this year.

As we enter 1995, market demand for corrugated shipping containers has kept mill operating rates at peak levels. If the U.S. economy continues to expand, and the worldwide recovery does not abate, tight market conditions will probably continue throughout 1995.

Although current conditions in the industry are very positive, slowdowns eventually occur, and we are committed to position Temple-Inland to outperform our competitors even when demand weakens. In 1994, we made significant progress toward our strategies to expand our specialty-packaging businesses, increasing the volume of value-added products we sell, and to broaden international operations.

Our production of specialty containers increased with the purchase of the Rand-Whitney Packaging Corporation, a recognized leader in litho-laminate corrugated packaging and high-graphic folding cartons. Rand-Whitney and the Company's new Graphics Resource Center are twin foundations for expansion in these growing markets of consumer packaging. The synergy between Rand-Whitney and the Graphics Resource Center quickly became apparent, and our entire sales organization is working to improve levels of penetration into these markets. Although we can service a portion of these specialty markets, additional geographic expansion will be required to be a national supplier and meet our objectives. Our first priority in this area will be the July start-up of a high-graphics facility in southern California. The production from this facility can be sold by our existing sales force and will benefit from a significant freight advantage into southern California and Mexico markets.

Our international expansion in 1994 included start-up of two corrugated box manufacturing plants in Mexico, the acquisition of 50% of a converting plant in Argentina, and the beginning of construction of a box plant in Chile. These operations were in a start-up mode in 1994, and results to date are very encouraging.

Bleached paperboard markets continued their decline in the first six months of 1994 before beginning a slow recovery. Sales were below 1993 levels, but operating levels improved in the second half of the year

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and production increased for these product grades.

The $500 million modernization and expansion program at our Evadale, Texas bleached paperboard mill continued, with some facets completed during the year. The remaining projects will be completed during 1995, but it will be the fourth quarter before the full benefits of the project will be evident.

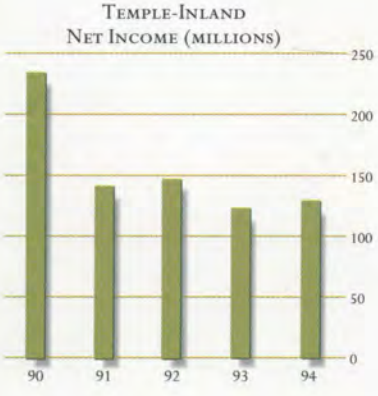
This expansion will enable the mill to produce a broader range of lighter basis-weight, premium-priced products. Demand for these grades is projected to increase at a faster rate than for the commodity products now produced and the marketplace is already confirming this growth.

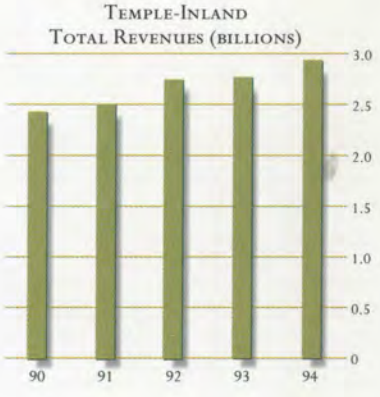
The recovery of building products markets continued in 1994, with Temple-Inland's operations experiencing excellent production and record earnings for the second consecutive year. Operating profits were 34% above 1993 due to a combination of selective product mix, continued improvements in productivity, and our fiber base of fee timber, which provides 50% of the Company's sawtimber needs. All product segments of the building products group contributed to the record results.

Construction continued on a new particleboard plant in Hope, Arkansas, which should be operational in the fourth quarter of 1995. The growth of the particleboard market, particularly the manufacturers of kitchen cabinets and furniture, has exceeded our ability to supply its needs. The new capacity from the Hope plant, which will increase our capacity by 50%, should be absorbed quickly.

Construction should begin soon on a new medium density fiberboard plant in Arkansas, in which the Company will have a 50% joint venture interest. This versatile product will replace lumber in molded applications inside a home or commercial building, as well as in furniture. As lumber increases in cost, the demand for medium density fiberboard should escalate.

After four consecutive years of record earnings, the financial services group experienced a 17% decline in earnings, partly because of the interest-rate environment as well as the strategic decision of Guaranty Federal Bank (the "Bank") to redeploy securities into single-family adjustable-mortgage loans. In addition, the Bank's strategy to refocus the retail deposit structure required the closing of 18 branches during the year. The new deposit structure will allow the Bank to become even more efficient in serving its prime





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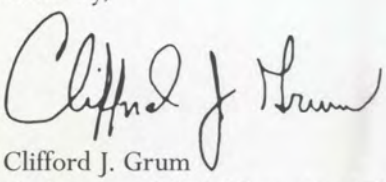
deposit customers, and the replacement of securities with loans will improve the long-term yield from these assets. Earnings from the financial services group should recover in 1995 and could reach record levels again in 1996.

In November, your board of directors increased the quarterly cash dividend to $.27 per share — an 8% increase. Cash dividends have now been increased each year since Temple-Inland became an independent entity. During this ten year period, dividends increased over fivefold to an actual payout of $1.02 per share in 1994.

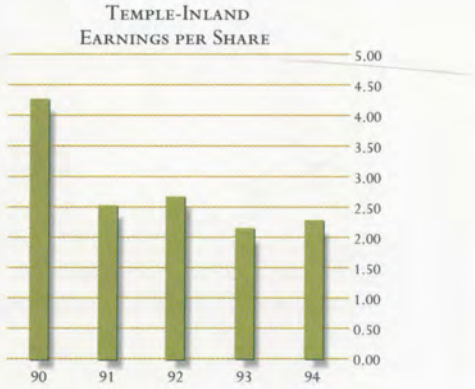
As we enter 1995, market conditions are favorable, and further improvement in earnings can be expected. It is difficult to predict how long these conditions will continue since they are dependent on worldwide economic growth. Most economists are predicting satisfactory growth in 1995, and some are forecasting positive momentum for the next few years.

Like in all business cycles, eventually we will experience a slower rate of growth in demand for our products. Our strategy is to prepare for this downturn by becoming more efficient in the production of our manufactured products, while continually increasing penetration into less commodity-oriented products and expanding the geographic reach of our marketing efforts. This focus will redirect our efforts to enable Temple-Inland to continue serving present customers and, at the same time, recognize and seize new opportunities. The ultimate goal is to increase the return to our shareholders.

Sincerely,



Clifford J. Grum
Chairman and Chief Executive Officer
February 3, 1995





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Corrugated Container

CORRUGATED BOXES, WHETHER BROWN, WHITE OR ANY OF A MYRIAD OF COLORS, CONTINUE TO BE THE BEST, MOST COST-EFFECTIVE MEANS OF TRANSPORTING PRODUCTS FROM THE PRODUCER TO THE ULTIMATE CONSUMER. NEARLY EVERYTHING THAT IS GROWN OR MANUFACTURED FINDS ITS WAY INTO A CORRUGATED BOX AT SOME TIME IN ITS LIFE CYCLE. AFTER THE PRODUCT HAS BEEN DELIVERED TO THE ULTIMATE CONSUMER, THE SAME BOX IS OFTEN USED BY THAT CONSUMER TO STORE OTHER PRODUCTS. AFTER DISPOSAL BY THE CONSUMER, AN ESTIMATED 65% OF ALL CORRUGATED PACKAGING PRODUCED IN THE UNITED STATES IS COLLECTED AND RECYCLED INTO NEW BOXES.

Inland Container Corporation, Temple-Inland's largest manufacturing group, is the third largest producer of containerboard and corrugated packaging in the United States, with revenues in 1994 of $1.4 billion. Containerboard production reached a new record in 1994 and totaled 2,603,547 tons, exceeding last year's record by 130,082 tons. Inland is vertically integrated and converted about 84% of its board production into corrugated packaging in its own box plants.

The corrugated container business experienced price recovery in 1994 due to the worldwide strength of demand. These worldwide markets are the dominant factor in determining the prices for containerboard and, ultimately, boxes. As mentioned above, Inland converts approximately 84% of the containerboard it produces into boxes at its box plants. The remaining 16% of its containerboard production is sold both domestically and internationally. Other companies in the industry, however, are not as integrated as Inland and have more containerboard to sell.

In the first half of 1993, almost all major economies declined and demand for containerboard flattened. This softness in the worldwide economy, coupled with growth in capacity at that time, resulted in declining prices.

In the second half of 1993, however, the United States began leading the world out of a recession, resulting in a recovery of demand for containerboard and improved margins. Throughout 1994, the worldwide demand for containerboard outstripped supply and the demand for boxes accelerated dramatically.

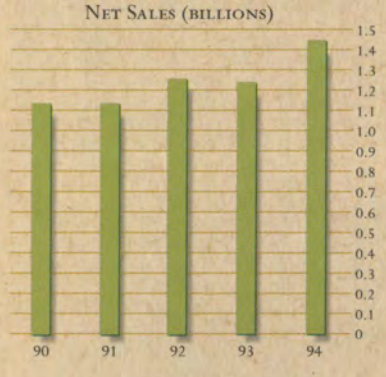
The better economic conditions allowed the Company to improve margins, which had deteriorated for the past two years. By January 1995, selling prices for containerboard had recovered by roughly 50% from the depressed levels of 1993 and box pricing was continuing to improve.

Productivity increases, including continuous improvement activities, offset most cost increases in 1994, but earnings were adversely affected by unprecedented increases in the price of old corrugated containers (OCC). This commodity is the principal raw material used in the Company's recycle operations and now provides 42% of our total fiber needs. From the first of 1994 until July, the price for OCC more than tripled before moderating somewhat. Prices began to escalate again, however, in the fourth quarter and have continued to rise in 1995. The Company absorbed nearly $50 million of additional cost for OCC in 1994 compared with 1993.

Despite the absorption of the additional cost of OCC, earnings increased nearly fivefold from $21 million in 1993 to $102 million in 1994. Earnings improved each quarter of the year, and fourth quarter earnings were greater than the first three quarters' earnings combined.

Inland's well established sales base and commitment to be the industry leader in design and graphics have uniquely positioned it to grow rapidly in the high





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Mom and the kids take for granted the high-graphic appeal of today's corrugated packaging. Corrugated packaging has taken on a new look from the plain brown boxes of yesteryear. Multi-color graphics, printed directly on the package or preprinted on labels, are used by more consumer-products companies that utilize the box to help sell the product from the shelves of warehouses and other types of retail stores. Inland is the third-largest producer of corrugated packaging in the United States.

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value corrugated-packaging markets of litho-laminate, microflute, and point-of-purchase displays. This commitment is exemplified by its Graphics Resource Center, which opened in Indianapolis in 1992 and features the largest preprint-linerboard press in the country. The Graphics Resource Center operated around the clock throughout 1994 and recorded its first profitable year.

In May, Inland purchased Rand-Whitney Packaging Corporation, which operates three packaging plants specializing in producing high value litho-laminate E and B flute corrugated-packaging. These boxes have become the package of preference for many high value consumer products because they combine the graphic excellence of lithography with the strength and protection of corrugated.

In addition to the litho-laminate products, Rand-Whitney produces traditional folding cartons. Its blue chip customer list includes pharmaceutical, personal care, cosmetic, hardware, giftware and sporting goods manufacturers, as well as a wide variety of food and general merchandise producers and distributors.

The Company also continued to move into international markets. In March, the Company purchased a corrugated box plant in Monterrey, Mexico, and in October, Inland also completed construction and began operation of a 150,000 square foot greenfield box plant in San Jose Iturbide, located between Monterrey and Mexico City.

Construction began on a box manufacturing plant in Chile that will be operated by a joint venture known as Inland-Chile. The plant, about 20 miles north of Santiago, is expected to begin operations as a full corrugator before the fruit growing season begins in the fall of 1995. Much of the fruit grown in Chile is exported in wooden crates. The move to corrugated is accelerating because of the recyclability of these containers.

In November, Inland announced a joint venture with Massuh S.A., Buenos Aires, to manufacture and market corrugated containers in Argentina. The 50–50 joint venture, known as Inland-Massuh S.A., operates a corrugated container plant. Inland-Massuh will capitalize on Inland's manufacturing expertise as well as Massuh's current manufacturing base, knowledge of local markets, and efficient distribution system.

These new ventures, along with Inland's plant in Puerto Rico, fit well into the Company's long range plans to develop a strong presence in Mexico, South America and the Caribbean. While these countries have a potential for growth at a rate much higher than the United States, significant hurdles may exist as exhibited by the recent devaluation of the peso in Mexico.

Inland's company mission is to be the preferred supplier of containerboard and corrugated containers by delivering to customers the highest value products and service. The process of continuous improvement through quality and the elimination of all waste is an integral component of the Company's ability to accomplish its mission, and can only be achieved by involving all employees in the process.



A typical shopping trip results in a basketful of products packaged in multi-colored corrugated packaging. Inland's Rand-Whitney organization, which was acquired in 1994, is a recognized leader in litho-laminate corrugated packaging and high-graphic folding cartons.

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Corrugated containers come in and out of homes every day. Recycling old corrugated containers (OCC) is key to the success of Inland's containerboard system. The Company operates seven mills, four of which utilize 100% OCC for their raw material, and two others which use a portion of OCC.

In all, 42% of the Company's raw material requirements in its containerboard mills is OCC.

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Bleached Paperboard

BLEACHED PAPERBOARD IS AN IMPORTANT SEGMENT OF THE TOTAL PAPER AND PAPERBOARD INDUSTRY AND IS THE PREFERRED MATERIAL FOR PACKAGING CONVERTERS AND COMMERCIAL PRINTERS WHO VALUE SURFACE SMOOTHNESS, STIFFNESS AND PRINT QUALITY. GENERALLY, THE MORE VALUABLE THE CONSUMER PRODUCT AND THE GREATER THE CONCERN FOR PURITY OF THE PACKAGING, THE MORE LIKELY THAT BLEACHED PAPERBOARD WILL BE THE PACKAGING PRODUCT OF CHOICE. THESE PREFERENCES ALLOW BLEACHED PAPERBOARD TO COMMAND HIGHER PRICING THAN UNBLEACHED ALTERNATIVES.

Bleached paperboard from the Company's Evadale, Texas mill is used in four distinct market segments: (1) Food Service—for use in products including paper cups, plates and trays for the home, fast food restaurants and other commercial institutions; (2) Office Supplies—such as manila folders and hanging folders; (3) Packaging—for use in packaging products ranging from computers to frozen foods; and (4) Commercial Printing—paperboard for use by commercial printers for a variety of purposes, including greeting cards as well as paperback book and annual report covers.

The growth of demand for bleached paperboard, both domestically and internationally, has suffered for the last three years reflecting worldwide economic conditions, but should accelerate over the next few years. The high-value consumer products, which require low-density bleached paperboard, are currently experiencing strong worldwide growth, and these packaging markets should continue this trend as more consumer products are used by both developed and developing countries.

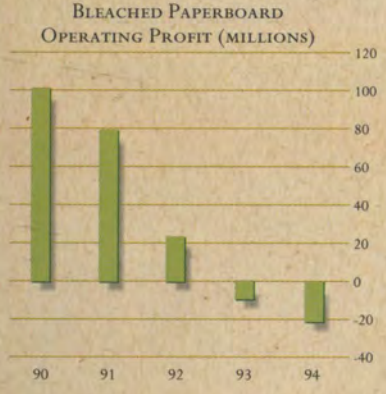
Recognizing this demand trend, Temple-Inland made the decision in 1992 to upgrade its one large bleached paperboard mill at Evadale, Texas. This $500-million modernization and expansion program will be substantially completed by the end of 1995. Primary elements of the program include: installation of a new paper machine to produce 200,000 additional tons of low-density paperboard, a new 1,200 tons/day pine-fiber line, a new lime kiln, a poly-extrusion operation and improvements to the existing paper machines. This large project, though disruptive to efficient operations in 1994 and 1995, remains on schedule and on budget.

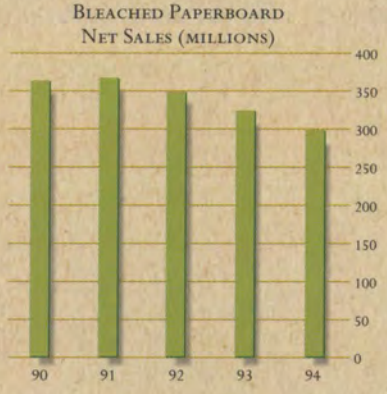
The start-up phase of the program began in November 1994 when the new lime kiln was placed in service. The new pine-fiber line will be operational during the first quarter of 1995, followed in the second quarter with the start-up of the new paper machine. However, due to the rebuilding of a recovery boiler in the third quarter, the targeted mill operating capacity will not be realized until during the fourth quarter.

After completion of the modernization program, Temple-Inland will produce approximately 9% of the world's bleached paperboard. Additionally, it will be able to achieve its goal of diversifying product lines and increasing market share in folding carton, low-density commercial printing applications and poly-extrusion markets.

1994 was a year of contrast for the bleached paperboard industry. As a result of recent additions to industry capacity in this segment, demand for this paperboard was extremely weak during the first quarter of 1994. The markets bottomed in the second quarter and strengthened throughout the remainder of the year, culminating in the fourth quarter when operating rates were near full capacity. For the year, industry production was up 8%, and the backlog of unmade orders at year end increased 300% over the 1993 levels.

Although the economic recovery was apparent by mid-year, price increases for bleached products lagged the general recovery. Prices for our bleached paperboard fell 7% compared with 1993. During the fourth quarter, however,





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What birthday party would be complete without a piece of cake served on decorative paperboard plates? Food service is just one of four business segments supplied by Temple-Inland's bleached paperboard group.
Left: Temple-Inland's offices encourage the recycling of office papers. The paper collected from our Diboll offices currently supplies a portion of the fiber needs for our operations.

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prices for our products improved and the year closed with prices 10% above January levels.

Operating performance improved at the paper mill in the second half of the year. Scheduled downtime and preparations for the new equipment associated with the modernization program kept the mill from realizing significant benefits from the improved market conditions. Although paperboard production volume increased 1% and variable manufacturing costs were reduced by 5%, the bleached paperboard group could not overcome the weak market conditions of the first half of the year and disruptions from the modernization program. As a result, the bleached paperboard group lost $22 million for the year.

We look to the future with optimism. The domestic market remains strong with international markets improving. As consumerism grows throughout the world, packaging will continue to become more important to the selling of a product. The recent passage of the GATT Treaty and future tariff reductions should lead to improved world trade that could further strengthen business prospects.

The expansion and modernization program should allow Temple-Inland's bleached paperboard group to be one of the world's most efficient producers of a smooth, high-quality and low-density bleached paperboard. With very little new bleached board capacity announced and strengthening markets, both domestic and international, the modernization program appears well timed to position Temple-Inland as a world leader in the production of high-quality bleached paperboard.

These positive trends in bleached paperboard market segments and improved mill performance should continue into 1995. The full benefit of the modernization program will not be realized until we complete the normal start-up curve for this type of expansion, which we expect to occur late in 1996. However, we expect a return to profitability in 1995.





Much of Temple-Inland's bleached paperboard production goes to converters who make plates, cups and trays for food service operations, and file folders for organizing business papers. Our $500-million modernization and expansion program will be substantially completed by the end of 1995. After completion of the modernization program, Temple-Inland will produce approximately 9% of the world's bleached paperboard.

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Building Products

IN 1994, THE BUILDING PRODUCTS GROUP HAD THE MOST PROFITABLE YEAR IN ITS HISTORY, WITH EACH OF THE MANUFACTURING BUSINESS UNITS PRODUCING RECORD EARNINGS. INCOME TOTALED $133 MILLION, UP 34% FROM THE $99 MILLION EARNED LAST YEAR. SALES INCREASED BY $74 MILLION IN 1994 TO $549 MILLION.

The solid-wood manufacturing operation — lumber and plywood — is the single largest contributor to earnings for the building products group. Record lumber production of 583 million board feet represents an increase of 6% from a year ago. The average price of lumber was up 11% while the cost of wood fiber, which represents over two-thirds of the cost of the lumber, was up over 30%. This profit margin squeeze was somewhat offset by additional efficiencies in the manufacturing operation, which achieved record production without substantially increasing fiber usage. Also, we received the benefit of the harvest of our own timber from 1.9 million acres of timberlands. Our lands, located in Texas, Louisiana, Georgia and Alabama, supplied about 50% of the wood fiber required for our solid-wood manufacturing operation in 1994.

The escalation of lumber prices continues to create a unique opportunity to generate wood building products that substitute for lumber and plywood. The building products group accelerated its strategy of upgrading and expanding operations to manufacture products that utilize sawtimber residues and command superior profit margins to commodity items.

The Company's particleboard operations continue to provide an excellent earnings stream. Production totaled 345 million square feet, almost all of which was higher-value industrial grades. The industrial grades are used in the manufacture of several consumer items such as kitchen cabinets and ready-to-assemble furniture. Markets were active throughout the year and demand continued to accelerate, which bodes well for the start-up of the Company's new particleboard plant that is under construction in Hope, Arkansas. This $62-million facility should be completed in the fourth quarter of 1995 and will increase the Company's particleboard capacity by 50%.

Medium density fiberboard (MDF) is a product with similar end-uses as particleboard. The demand for this versatile product continues to grow, and in August we announced a joint venture to build a MDF plant in Arkansas. Over half of the raw material for this 150 million square feet annual production operation will be the wood residues generated at our partner's lumber mills in Arkansas. MDF will replace lumber in molded applications inside a home or commercial building, as well as in furniture.

Demand for gypsum wallboard improved avd shipments and orders remained strong through the year. The Company's gypsum operations set a new record in 1994 with earnings more than three times greater than 1993 levels.

Specialty gypsum products, including our Stretch 54®, accounted for 33% of production in 1994. Stretch 54®, a panel that is 54 inches wide rather than the normal 48 inches, saves installation time and decreases waste in the construction of the increasing number of homes with nine-foot ceilings. Since gypsum is installed horizontally, the standard 48-inch board leaves a one-foot gap that must be filled and creates two joints that must be covered. Stretch 54® eliminates one of these joints. The Company's West Memphis facility is especially configured to manufacture this product without a reduction in efficiency.

The Company expanded its finger-jointing capabilities at its lumber operations in Diboll, Texas. This process, which involves joining multiple pieces of lumber into a solid board, allows for the recovery of trim





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waste and the upgrading of low-grade lumber into premium products, such as studs up to 10 feet in length, as well as molding stock.

Demand for fiberboard products was strong through most of 1994, but declined near year end resulting in lower pricing and shipments. The Company's fiberboard operations produced slightly higher earnings than in the prior year.

We manufactured our first fiberboard product in 1958. That four-foot by eight-foot sheathing product was used as insulation on the exterior walls of buildings or as underlayment for certain types of roofing. The Company then developed a hardboard siding product used on the exterior wall surface of buildings, and in 1991 introduced TrimCraft™, an engineered exterior wood trim. This product is manufactured with both smooth and textured surfaces and is a viable alternative to higher-priced solid-wood trim. Market acceptance of TrimCraft™ remains good and demand should increase in 1995.

Whereas many corporations have focused principally on technological improvements in their manufacturing sectors, Temple-Inland has broadened the scope of its



Our marketing group helps to introduce new product opportunities like TrimCraft™. TrimCraft™ is an engineered exterior wood trim manufactured in both smooth and textured surfaces, making it a viable alternative to higher priced solid wood trim. The demand for TrimCraft™ and other alternative products should remain strong in 1995.

Opposite: Relaxing on the deck. Quality family time is enhanced by the beauty and function of a deck made from lumber from Temple-Inland mills. We sell approximately 32% of our lumber production to treaters that process the material for decks and other uses in the repair and remodeling market.

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continuous improvement programs to include all sectors of the building products group. Process control, continuous improvement and the elimination of waste in all processes have become a way of life. These efforts have not only allowed us to lower manufacturing costs, but have enabled us to better service our customers.

In 1994, we continued to redesign our marketing functions, reaching a new level of technology in the merchandising of the Company's products. A single phone call can provide a price quotation, confirm a sale and schedule a delivery date. Employee teams have been organized to ensure a single-point contact for customer support service from order to delivery.

The building products group's earnings in 1994 demonstrated that the plan to diversify products and improve the efficiency of operations is a sound and profitable strategy that will serve Temple-Inland well in 1995 and beyond.





The dream of a new home becomes a reality with solid wood produced by Temple-Inland. Lumber and plywood represent the single largest contributor to the building products group's earnings.

Particleboard, which is used in applications such as kitchen cabinets and furniture, enhances the family's home or work surroundings. In 1994, we commenced construction of a new particleboard plant in Hope, Arkansas, which will increase our particleboard capacity by 50%.

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Forests

TEMPLE-INLAND CONTROLS APPROXIMATELY 1.36 MILLION ACRES OF FORESTLAND IN EASTERN TEXAS AND WESTERN LOUISIANA AND APPROXIMATELY 530,000 ACRES IN GEORGIA AND ALABAMA. THESE FORESTLANDS SUPPORT THE COMPANY'S VIRGIN FIBER CONSUMING PLANTS IN TEXAS, LOUISIANA AND GEORGIA. THE 1.36 MILLION ACRES IN TEXAS AND LOUISIANA ARE BASICALLY 100% FEE OWNERSHIP, WHILE THE 530,000 ACRES IN GEORGIA AND ALABAMA ARE 83% FEE OWNERSHIP AND 17% LONG-TERM LEASE TRACTS.

The ownership patterns of these lands are constantly being modified pursuant to an ongoing land-improvement program. This program is designed to concentrate lands closer to manufacturing facilities while disposing of properties deemed uneconomical to manage as forestlands or that are located too far from a mill site. Implemented through land exchanges and purchases, this program has increased the available fiber supply acreage and reduced delivered fiber costs.

All Company lands are managed according to "best management practices," as established by each state. These guidelines contain provisions to assure the protection of streams and water courses, as well as a variety of other aspects of good forest management, and are closely monitored by our forestry staff and audited in conjunction with our corporate environmental department.



Pine sawtimber is the primary product harvested from our forestlands. Pine pulpwood from thinnings, necessary to maintain the ideal silvicultural practices on the property, is produced as a secondary, but important, fiber. Trees are normally grown to at least a 35-year age before they are harvested as sawtimber. Company foresters then plant new seedlings and renew the cycle. During the cycle, the trees are thinned on at least two occasions to remove inferior trees and provide adequate growing space for the remaining stand. The thinning also allows more sunlight to reach the forest floor and encourages understory growth that helps maintain forestland bio-diversity. Although most of Temple-Inland's forestland covered by pine is managed for pine sawtimber, the Company does manage a portion of the land for pine pulpwood. These intensively managed stands reduce the cycle from planting to harvest to renewal to 28 years.

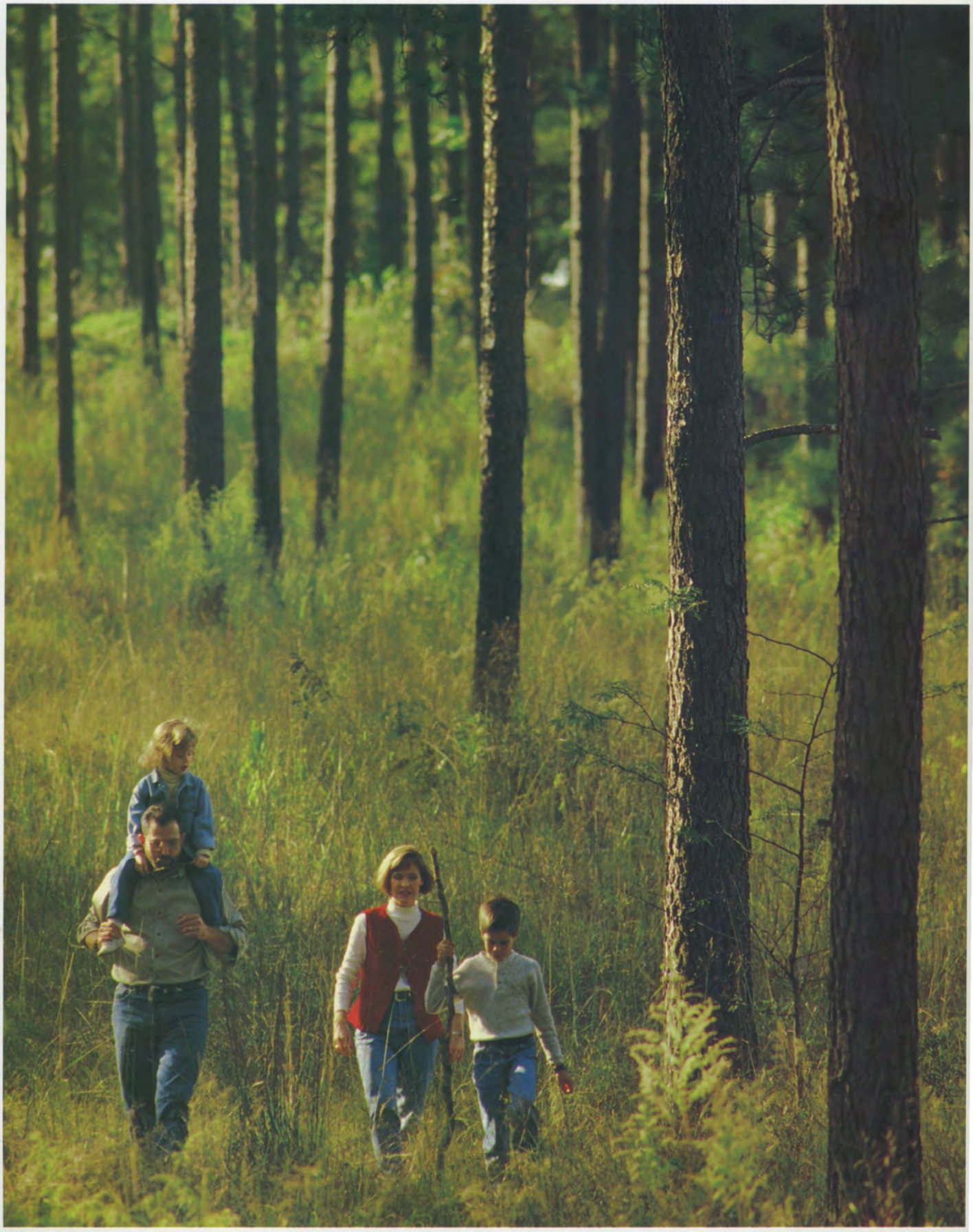
The lands best suited to grow hardwood species are managed and maintained for this important fiber and habitat-enhancing material. Almost 15% of the productive forest supports hardwood species. Hardwoods are grown in a 40-year cycle that depends on natural regeneration, rather than planted seedlings, to renew the hardwood forest. Drainages, roadside greenbelts and wildlife corridors within pine management areas contain volumes of hardwood that enhance forest diversity.

The lands of Temple-Inland make a valuable financial contribution to the Company. Our Texas and Louisiana lands provide over half of the Company's fiber needs in the area, while our Georgia and Alabama lands supply about one-third of the requirements for the sawmill and papermill in Rome, Georgia. These percentages should continue to rise in 1995 and beyond as plantations established in the 1960s and 1970s reach maturity.

The importance of this increased fiber supply, and the associated increase in value of the standing inventory on Company lands, is apparent when one considers that prices have already increased 25 to 100%, depending upon the product, during the decade of the 90s. We believe that prices will continue to escalate in the future, making new and innovative forestry practices even more important. Accordingly, we are currently utilizing intensive management principles for Company land, including fertilization and pruning, while we continue to study other means of increasing the productivity of these lands. The ultimate goal is to produce higher-quality wood fiber in a shorter period of time.

Due to the limited supply of hardwood, the Company entered into a joint venture to grow short-rotation hardwood fiber in Mexico for delivery to Texas ports.

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Intensive investigations indicated that the soil, climate, transportation, labor and other factors were favorable for the initiation of the project in the Mexican states of Veracruz and Tabasco. Initial plantings on the sites commenced in early fall. The reception of the project from local landowners has exceeded expectations, and the rate of planting the under-utilized grazing lands and abandoned farmlands envisioned in preliminary projections seems readily attainable. No native forestlands are used to support the project. Upon completion of the first generation of plantings, now scheduled for 2001, the project will supply competitively priced hardwood fiber equivalent to about 20% of the requirements of the Evadale, Texas paper mill.

The forest group completed the upgrade of the latest forest inventory management system in 1994. This system increased the ability to access and use the large database containing information on all aspects of the Company's forestlands. Improved data access to the plans and treatment history for each of thousands of forest stands will strengthen management's decisions and provide a better benchmark against which to measure plan accomplishments. Distribution of this system to all field offices is planned for 1995.

The improved inventory system will directly supply information for the resource optimization system installed during the year. This system analyzes and supplies decision-making information that helps with the allocation of fiber to the best end use.

Temple-Inland continues to devote substantial attention to wildlife, and acreage is cultivated to carefully nurture the animal and plant life that depend upon the forests for sustenance, shelter and protection. Through both in-house programs and direct financial support for research at leading universities, Temple-Inland has long been recognized for advancing knowledge in all aspects of wildlife management. Some of the programs Temple-Inland supports include restocking efforts for wild turkeys into native habitats, habitat preservation for threatened plant species, a quail relocation study, a major study on the management of whitetail deer and wetlands research. In addition, we recently established 7,000 acres of forestland habitat for the endangered red-cockaded woodpecker.



Restoration of wild turkeys to East Texas habitat is an example of Temple-Inland's continuous efforts to improve the environment. Other programs include habitat preservation for threatened plant species, wetlands research and quail relocation and whitetail deer management studies.

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Financial Services

THE OPERATIONS OF TEMPLE-INLAND FINANCIAL SERVICES INCLUDE A SAVINGS BANK, MORTGAGE BANKING, REAL ESTATE DEVELOPMENT AND INSURANCE. AFTER ACHIEVING RECORD EARNINGS OF $68 MILLION IN 1993, THE FINANCIAL SERVICES GROUP EXPERIENCED A 17% DECLINE IN EARNINGS IN 1994 TO $56 MILLION.

Despite this decline in earnings, 1994 was an important year in the development of Guaranty Federal Bank, F.S.B. (the "Bank") and its related mortgage operation. In reconstructing the Bank, the primary emphasis has been to build a base of operation through acquisition. This trend continued in 1994 with the June acquisition of First Federal Savings of San Antonio, which had approximately $363 million in assets. This acquisition has been quickly and successfully merged into existing operations, allowing the Bank to serve its customers better, as well as increasing market penetration in San Antonio, Texas. It also provided for additional economies of scale through consolidation of operations with existing branches in that area.

Since we began building the Bank in 1989, we have had only limited opportunities to develop a loan portfolio of single-family adjustable-mortgage loans because the interest-rate environment prior to 1994 favored long-term fixed-rate mortgage loans. As a result, we have invested deposits in adjustable-rate mortgage-backed securities. These securities carry low credit risks but earn a lower interest yield than mortgage loans.

The rising interest rate environment in 1994 allowed the single-family adjustable-mortgage loan to become more attractive to potential customers. In 1994, the Bank acquired over $1.2 billion of these mortgages, increasing the ratio of loans to total assets to 42%.

The market for single-family adjustable-mortgage loans, however, is very competitive. These loans normally require a discounted rate in the first few months after origination. These reduced rates, for the initial "teaser" period, were absorbed directly into operating results, adversely affecting earnings.

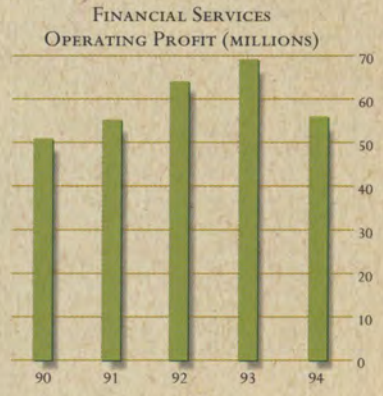
The interest rates on these adjustable loans, as well as all of our mortgage securities, are reset periodically to current levels. However, the lag between a rate change and the change being reflected in the yield of the security averages at least 90 days. Since the Bank's deposit costs reflect the current interest environment, the net interest margin suffers and profitability is reduced in periods of rising rates such as those experienced in 1994.

The dramatic decline in the refinancing boom in home mortgages due to increasing mortgage rates resulted in a national reduction in mortgage originations to approximately $700 billion in 1994, a decrease of roughly $400 billion from 1993. Temple-Inland mortgage operations originated $2.1 billion in mortgages in 1994, which is about 45% of 1993's level. In an attempt to reduce overhead, the mortgage banking operation closed 31 branches.

The loan-servicing portfolio totaled $10.1 billion at year end 1994 compared with $9.1 billion in 1993, and further growth is expected in 1995. The mortgage bank's primary objective is to continue productivity and process improvement through implementation of advanced information technology to reduce the cost of originating and servicing loans.

Other operations in our financial services group include insurance brokerage services and real estate development. Timberline Insurance Managers Inc. is operated as a general insurance agency providing a full range of insurance products, including personal and commercial lines, annuities, life and health insurance and risk-advisory services to corporations and financial institutions. The agency also acts as the risk-management department of Temple-Inland.

Real estate operations, conducted by Lumbermen's Investment Corporation, include development of residential subdivision lots and the development, manage-



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The anxiety of financing a new home or home addition is eased by the products and services offered by Temple-Inland's financial services group. This group has focused on providing and securing residential mortgages for almost 40 years.

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ment and sale of income properties. Land development projects include 16 single family subdivisions in Austin, San Antonio, Dallas and Houston.

As a part of continuous efforts to improve productivity, Temple-Inland financial services group commenced construction in 1994 of a 270,000 square foot building in Austin, Texas. This building should be completed in the fourth quarter of 1995 and will allow consolidation of all operating center personnel in one location. This consolidation, along with other ongoing process and productivity improvements, should result in major productivity increases and decreased costs in 1995 and beyond.



Guaranty Federal Bank operates 123 branches in Texas, the second most populous state in the country.

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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
Bell, California
Buena Park, California
El Centro, California
Newark, California
Ontario, California
Sante Fe Springs, California (3)
Tracy, California
Wheat Ridge, 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
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
San Jose Iturbide, Mexico
Monterrey, Mexico
Buenos Aires, Argentina
(50% joint venture)

Specialty Converting Plants
Harrington, Delaware
Leominster, Massachusetts
Montville, Connecticut
Indianapolis, Indiana
Milwaukee, Wisconsin

Food Service Converting Operations
El Cajon, California
Sacramento, California
Denver, Colorado
Carlisle, Ohio
Monroe, Louisiana



Financial Services

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

Mortgage Banking Operations
Arizona
California
Colorado
Florida
Georgia
Illinois
Maryland
Minnesota
New York
Oklahoma
Texas
Virginia
Washington

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Directors and Officers

Board of Directors

Temple-Inland Inc.

Paul M. Anderson (5) (6)
President
Panhandle Eastern Corporation

Robert Cizik (3) (4) (5) (6)
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 (2) (4) (6)
Chairman and
Chief Executive Officer
Vulcan Materials Company

Walter P. Stern (1) (2) (3)
Chairman of the Board
Capital Group International, Inc.

Arthur Temple III (3) (4) (6)
Chairman of the Board and
Chief Executive Officer
Exeter Investment Company

Charlotte Temple (1) (5)

Larry E. Temple (1) (3) (5)
Attorney

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

Officers

Temple-Inland Inc.

Clifford J. Grum
Chairman and
Chief Executive Officer

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

M. Richard Warner
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

Robert F. Adelizzi
Vice President
Sales and Administration

Per G. Klykken
Vice President
Mill Manager

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

Kenneth M. Jastrow, II
President and
Chief Operating Officer

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MANAGEMENT'S DISCUSSION AND ANALYSIS

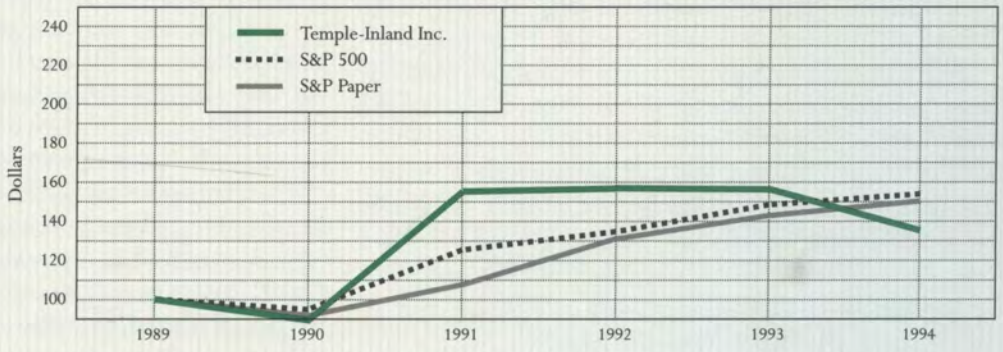
Results of Operations and Financial Condition

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

Business Segment For the year	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
Revenues					*(in millions)*						
Corrugated container	$1,438	$1,249	$1,254	$1,148	$1,144	$1,138	$1,093	$ 964	$ 722	$ 684	$ 665
Bleached paperboard	299	319	353	371	373	368	336	293	265	257	285
Building products	549	475	391	311	305	320	312	323	281	268	295
Other activities	20	58	77	68	70	68	33	23	28	34	18
Manufacturing net sales	2,306	2,101	2,075	1,898	1,892	1,894	1,774	1,603	1,296	1,243	1,263
Financial services	632	635	638	609	509[a]	49	40	39	47	39	36
Total Revenues	$2,938	$2,736	$2,713	$2,507	$2,401	$1,943	$1,814	$1,642	$1,343	$1,282	$1,299
Income Before Taxes											
Corrugated container	$ 102	$ 21	$ 112	$ 76	$ 151	$ 208	$ 221	$ 151	$ 39	$ 50	$ 75
Bleached paperboard	(22)	(12)	23	80	99	115	83	53	29	20	47
Building products	133	99	40	5	9	24	25	37	36	23	41
Other activities	1	(2)	(2)	1	(2)	(1)	1	-	(6)	2	(3)
Operating profit	214	106	173	162	257	346	330	241	98	95	160
Financial services	56	68	64	54	52[a]	(2)	—	5	13	18	13
	270	174	237	216	309	344	330	246	111	113	173
Corporate expense	(14)	(11)	(15)	(16)	(21)	(13)	(20)	(12)	(13)	(8)	(12)
Parent company interest—net	(66)	(69)	(47)	(32)	(24)	(24)	(23)	(20)	(13)	1	(5)
Other income	3	2	2	(1)[b]	5	5	17[c]	6	24[d]	20[e]	9
Income before taxes	$ 193	$ 96	$ 177	$ 167	$ 269	$ 312	$ 304	$ 220	$ 109	$ 126	$ 165

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, 1989. *Total return assumes reinvestment of dividends.

[a] *Includes operating results from the consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.*

[b] *Includes losses of $7.4 million from the write-off of an investment interest in a gypsum-fiberboard venture.*

[c] *Includes gains of $12.4 million on the disposition of lands and $50 million on the sale of the AFCO Industries subsidiary.*

[d] *Includes $15.3 million income net of federal income taxes from life insurance operations which were discontinued in 1990 (amounts were immaterial in other years).*

[e] *Includes $11.3 million gain on the sale of Eastex Packaging Subsidiary.*

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CORRUGATED CONTAINER

The Corrugated Container group manufactures linerboard and corrugating medium at seven paper mills and converts it into corrugated shipping containers at 41 box plants. In addition, it operates five Specialty Converting plants.

The group earned $102 million in 1994, almost five times more than the $21 million earned in 1993. Global demand for boxes increased dramatically during 1994, causing prices for both corrugated shipping containers and containerboard to rise rapidly. This pricing improvement allowed earnings to improve in spite of record costs for old corrugated container ("OCC"), the primary raw material in over 42 percent of the group's containerboard production.

Mill production totaled 2.6 million tons in 1994, an increase of 5 percent from the previous year. Production of containerboard exceeded internal box plant usage by 376,000 tons in both 1994 and 1993 and 243,000 tons in 1992. Most of the excess production was sold in the domestic and export markets.

Construction of the $176 million recycle linerboard mill in Maysville, Kentucky was completed during the fourth quarter of 1992. This mill has the capacity to annually produce 295,000 tons of linerboard and corrugating medium using OCC as a raw material. 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 305,000 tons annually.

	1994	1993	1992
Tons Mill Production	2,603,000	2,473,000	2,287,000

The Company's 41 box plants are located throughout the United States and in Puerto Rico, Mexico and South America. 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 product mix at the box plants.

Tons of boxes sold increased by 6 percent in 1994 and 2 percent in 1993. Domestic container prices for the entire year 1994 were up an average of 5 percent after having been down 2 percent in 1993.

In May 1994, the Company purchased the stock of Rand-Whitney Packaging Corporation for $57.5 million. Included in the purchase were three manufacturing plants specializing in litholaminate corrugated packaging and high graphics folding cartons.

The table below shows the Corrugated Container group 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.

Corrugated Container	1994	1993	1992
Unit Sales		*(in thousands of tons)*	
1st Qtr	628	598	539
2nd Qtr	648	606	573
3rd Qtr	622	593	579
4th Qtr	594	597	603
For the year	2,492	2,394	2,294
Net Sales		*(in millions)*	
1st Qtr	$ 326.9	$ 318.5	$ 296.1
2nd Qtr	353.8	319.6	319.0
3rd Qtr	371.2	307.8	315.6
4th Qtr	386.3	302.6	323.7
For the year	$1,438.2	$1,248.5	$1,254.4

BLEACHED PAPERBOARD

The Bleached Paperboard group produces bleached paperboard at its mill in Evadale, Texas. This group's products are sold to packaging converters and commercial printers. These customers require a high degree of product purity and print quality.

In 1994, this group reported a loss of $22.1 million, its second loss since operations began in 1954. The average prices for bleached paperboard were down 6 percent from 1993 levels because of weak demand during the first half of the year. Demand began to increase during the second quarter and by year end was strong across all product lines. Prices for bleached paperboard increased by 13 percent from May to December 1994. During 1993, the group reported its first loss as a result of the weak global markets for bleached paperboard.

The group began a $500 million modernization and expansion program during 1992. In October 1994, a scheduled mill outage of ten days was taken which also allowed for integration of new equipment into the manufacturing processes. A new lime kiln and causticizing line was completed in November 1994. Construction is on schedule and within budget for the remaining key expansion projects, including the new paper machine, new pine fiberline, coating plant, extruder plant and power boiler. These projects should be substantially complete by the end of 1995. In spite of the disruptions related to the construction projects, which caused manufacturing costs to increase, the group increased good paperboard production by one percent during 1994.

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; Denver, Colorado; and Monroe, Louisiana. Products manufactured 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 develop and market paper products for the food service industry. Food Service converted 51,919 and 49,054 tons of bleached paperboard and recorded revenues of $57.9 million and $55.6 million during 1994 and 1993, respectively.

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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	1994	1993	1992
Unit Sales		*(in thousands of tons)*	
Paperboard			
1st Qtr	106	116	109
2nd Qtr	109	109	97
3rd Qtr	112	103	101
4th Qtr	103	98	107
For the year	430	426	414
Pulp			
1st Qtr	20	38	40
2nd Qtr	25	41	35
3rd Qtr	24	33	40
4th Qtr	18	22	40
For the year	87	134	155
Net Sales		*(in millions)*	
Paperboard			
1st Qtr	$ 55.9	$ 68.9	$ 66.5
2nd Qtr	57.2	64.9	65.2
3rd Qtr	59.6	58.5	65.0
4th Qtr	60.0	54.5	66.9
For the year	$232.7	$246.8	$263.6
Pulp			
1st Qtr	$ 4.5	$10.3	$12.9
2nd Qtr	5.5	10.3	10.2
3rd Qtr	6.5	7.9	12.7
4th Qtr	5.9	5.1	11.8
For the year	$22.4	$33.6	$47.6
Other (including Food Service)			
1st Qtr	$ 9.3	$ 9.6	$12.1
2nd Qtr	13.3	11.7	10.4
3rd Qtr	13.0	9.2	8.9
4th Qtr	8.7	7.6	10.0
For the year	$44.3	$38.1	$41.4

BUILDING PRODUCTS

The Building Products group manufactures a diversified line of construction and commercial grade building materials at ten separate locations in Texas, Louisiana, Oklahoma, Arkansas, Alabama and Georgia which, in 1994, generated 89 percent of group net sales. Three-fourths of its revenues are typically realized from wood-based materials made from Southern pine logs or the green and dry residue that result from log conversion. These products include lumber, plywood, fiber products and particleboard sold to both residential and commercial market segments. The non-wood based business unit manufactures a variety of gypsum wallboard products, which are also marketed to residential and commercial end users. Four retail locations, which sell a broad range of building materials to the contractor and retail markets, accounted for 11 percent of group net revenues in 1994. Approximately 21 percent of 1994's retail revenues were derived from Company manufactured products.

Each manufacturing business unit established record profit levels in 1994, providing the group with $132.6 million in earnings, which exceeded the prior year record of $99.1 million by 34 percent. Gains were experienced across all product lines as construction markets responded to increased housing demand even as mortgage interest rates continued to rise. The proliferation of cheaper adjustable rate mortgages continued to underpin affordability, and improving job markets renewed a buyer willingness to make long-range credit commitments. While timber constraints on the West Coast continued to affect the domestic supply of wood products in 1994, markets made pricing corrections throughout the year as other regions increased production and as added imports narrowed the earlier supply imbalance.

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

Building Products	1994	1993	1992
Unit Sales		*(in millions of board feet)*	
Pine lumber	509	484	467
		(in millions of square feet)	
Fiber products	441	440	464
Particleboard	347	319	326
Plywood	260	265	250
Gypsum wallboard	796	782	621
Net Sales		*(in millions)*	
Pine lumber	$185.7	$153.8	$120.9
Fiber products	66.3	62.9	55.8
Particleboard	103.0	81.3	70.5
Plywood	56.8	54.0	45.2
Gypsum wallboard	74.3	53.3	36.6
Retail distribution	58.4	60.0	53.5
Other	4.8	10.0	8.8
For the year	$549.3	$475.3	$391.3

Pine lumber sales volume gained 5 percent and 4 percent in 1994 and 1993, respectively, as the group's saw mills continued to improve in operating efficiencies and in product yields—the volume of lumber produced from logs. Although lumber prices declined about 10 percent in the fourth quarter of 1994 from first quarter record highs, the year's sales remained well above 1993 levels and total revenues were up 21 percent over 1993, following the 27 percent increase in 1993 sales over 1992. The lumber group expanded its product mix to include more premium shop and molding grade items, and at year end was nearing completion of a $4.3 million capital project to increase the grade, volume and yields of its stud grade production, which accounted for 12 percent of lumber production in 1994.

Plywood revenues in 1994 increased 5 percent over 1993 even as unit sales declined 2 percent, due to a reduction in production volume. Production was negatively impacted in 1994 by a shift in product mix that required slower production rates and was designed to address changing market opportunities. Competitive oriented-strand board continues to erode market share of plywood structural grade products, and the Company is committed to a program that emphasizes specialty panels, engineered products and other items for the export trade. In 1994, export of plywood comprised 41 percent of total plywood shipments.

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By-product wood chips from the manufacture of lumber and plywood are shipped to the Company's two East Texas paper mills and in 1994 represented about 28 percent of their pine fiber requirements. Chips supplied to the fiber products operation in 1994, as in prior years, continued to provide over half of its fiber requirements.

The demand for siding products manufactured by the fiber products business unit was firm during 1994, moving to even higher levels than during 1993, and moderated only late in the fourth quarter as seasonal buying habits affected order placements. TrimCraft™, the new line of engineered lumber substitutes, moved to a two-shift production schedule during the year following the growth in demand for these alternative lumber products. A $3.5 million capital project completed at the close of 1993 enabled the mill to triple its output of this product. Roof and wall insulation products represented 38 percent and 42 percent of fiber products shipments in 1994 and 1993, respectively, and sales gains were experienced throughout the year.

The Company manufactures particleboard from dry by-products of lumber processing at three mills located in Texas, Alabama and Georgia. A fourth mill, with a projected cost of $62 million, was approved for construction in 1993, and by early 1996 will increase existing capacity by almost 50 percent, or 170 million square feet. In 1994, the particleboard group experienced record shipments. Volumes increased 9 percent over 1993, with quarter-over-quarter pricing repeating the upward trend which began in 1993. The firm demand for these commercial grade products continued well into the fourth quarter. Approximately half of particleboard shipments moved to ready-to-assemble manufacturers of furniture and kitchen cabinets with another 11 percent sold to plastic and paper laminators, which supply similar end uses.

Gypsum wallboard shipments increased about 2 percent in 1994 following a 26 percent gain in 1993 over 1992 when the Oklahoma and Arkansas plants moved to full production schedules. Demand for these products increased throughout the year resulting in substantial sales gains for this business unit. Business remained firm at the end of the year, and specialty products comprised almost a third of total shipments. Within the specialty product mix is the Company's Stretch 54®, a popular wallboard used in homes with nine foot ceilings, which greatly reduces waste and application labor costs.

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	1994	1993	1992
		(in millions)	
INCOME			
Savings bank	$ 37.2	$ 45.1	$ 44.9
Mortgage banking	15.9	19.9	20.9
Real estate	(.6)	(1.5)	(7.6)
Insurance	3.8	4.0	6.2
Income before taxes and accounting change	56.3	67.5	64.4
Taxes on income	15.3	18.8	11.0
Income before accounting change	41.0	48.7	53.4
Cumulative effect of accounting change	-	52.3	-
Net income	$ 41.0	$ 101.0	$ 53.4
ASSETS			
Savings bank	$8,707.8	$8,799.6	$7,629.7
Mortgage banking	122.2	131.8	113.7
Real estate	214.7	224.7	245.8
Insurance	21.4	31.0	19.2
Other activities	1.6	13.9	13.9
Eliminations	(60.0)	(67.7)	(44.3)
Total assets	$9,007.7	$9,133.3	$7,978.0
LIABILITIES			
Savings bank	$8,281.7	$8,415.2	$7,315.9
Mortgage banking	91.8	97.2	82.5
Real estate	130.8	125.8	149.4
Insurance	15.9	27.1	17.5
Other activities	4.6	24.0	4.4
Eliminations	(60.0)	(67.7)	(44.3)
Total liabilities	$8,464.8	$8,621.6	$7,525.4
EQUITY			
Savings bank	$ 426.1	$ 384.3	$ 313.8
Mortgage banking	30.4	34.6	31.2
Real estate	83.9	98.9	96.4
Insurance	5.4	3.9	1.7
Other activities	(2.9)	(10.0)	9.5
Total equity	$ 542.9	$ 511.7	$ 452.6

Savings Bank

The Company's Savings Bank, Guaranty Federal Bank, F.S.B., conducts its business through 123 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 Selected Financial Information Years ended December 31	1994	1993	1992
		(dollars in millions)	
INCOME AND EXPENSE			
Net interest income	$149.2	$135.4	$136.5
Noninterest income	25.0	19.5	22.3
Noninterest expense	130.5	104.9	111.4
Income before taxes and accounting change	37.2	45.2	44.9
AVERAGE BALANCE SHEET			
Total earning assets	8,544.7	8,720.7	7,238.7
Mortgage-backed and investment securities	4,151.3	4,978.0	4,958.7
Loans receivable and mortgage loans held for sale	3,147.6	2,116.4	1,467.5
Securities purchased under resell agreements	551.3	1,176.0	251.7
Covered Assets	536.2	405.7	479.4
Deposits	6,681.6	5,838.3	6,128.0
Securities sold under repurchase agreements and advances from FHLB	1,714.2	2,726.9	998.0
KEY RATIOS			
Yield on earning assets	5.59%	5.32%	6.72%
Cost of funds	3.91%	3.83%	4.91%
Net spread	1.68%	1.49%	1.81%

Net interest income for 1994 increased $13.8 million from 1993. Although the total amount of average earning assets during 1994 remained relatively unchanged from 1993, the average balance of loans receivable increased approximately $1 billion, principally due to the acquisition of American Federal Bank, F.S.B. ("AFB") with a corresponding decrease in mortgage-backed securities (due to normal principal reductions) and resell agreements (due to the maturity of the short-term instruments). The resell agreements were purchased during 1993 in anticipation of the acquisition of AFB. This change in the asset mix primarily accounts for the 19 basis points increase in the net interest spread because the loans receivable have a higher yield than mortgage-backed securities and resell agreements. At December 31, 1994, loans receivable comprised 42 percent of total assets, an increase of 11 percent from the prior year.

Net interest income for 1993 decreased $1.1 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 AFB, and (2) spread compression of mortgage-backed securities indexed to the Federal Home Loan Bank Eleventh District Cost of Funds Index ("EDCOF"). During 1993, EDCOF decreased 72 basis points while the Savings Bank's cost of funds decreased only 51 basis points.

The Savings Bank's noninterest income is comprised primarily of service charges on deposits. Noninterest income for 1994 increased $5.5 million from 1993 due to the increase in average deposits as a result of the acquisitions completed in late 1993 and mid-1994. 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.

Noninterest expense for 1994 increased $25.6 million from 1993, also as a result of the acquisitions. Operating expense categories which experienced an increase include compensation, occupancy costs, federal insurance premiums on deposits and amortization of goodwill and core deposit intangibles.

Acquisitions

In June 1994, the Savings Bank purchased substantially all of the net assets of First Federal Savings Bank of San Antonio ("FFSB") for approximately $43 million, subject to final purchase price adjustments. FFSB was a savings bank with ten banking centers in San Antonio, Texas, with assets at acquisition totaling approximately $363 million, consisting primarily of mortgage loans and cash.

In November 1993, the Savings Bank purchased all of the outstanding stock of AFB for approximately $156 million. AFB was a 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. See Note B on page 41 for additional information.

Liquidity, Interest Rate Risk Management 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. At December 31, 1994, the Savings Bank exceeded the required liquidity ratios.

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

The operations of the Savings Bank are subject to a risk of interest rate fluctuation to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Since approximately 80 percent of the Savings Bank's assets have adjustable rates, this risk is significantly mitigated. A significant portion of the Savings Bank's investments in adjustable rate mortgage-backed securities have annual or lifetime caps that

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subject the Savings Bank to interest rate risks should rates rise above certain levels. To optimize net interest income while maintaining acceptable levels of interest rate and liquidity risk, the Savings Bank enters into various interest rate contracts for purposes other than trading. See Note M on page 45 for additional information. 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, 1994. Note N on page 46 contains additional information concerning capital requirements, including capital ratios of the Savings Bank.

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.

A summary of selected financial information is provided below.

Mortgage Banking Operations Summary

Years ended December 31	1994	1993	1992
		(dollars in millions)	
Revenues	$ 73	$ 104	$ 82
Income before taxes	16	20	21
Portfolio roll-forward:			
Beginning servicing	$ 9,067	$ 7,746	$ 6,477
Purchased servicing	1,650	-	-
New loans added, net of servicing released	540	3,302	2,516
Run-off	(1,189)	(1,981)	(1,247)
Ending servicing	$10,068	$ 9,067	$ 7,746
Portfolio growth rate	11.0%	17.0%	19.6%
Run-off factor	13.1%	25.6%	19.3%
Ending number of loans serviced	149,500	144,700	138,400

Increases in mortgage interest rates during 1994 led to a significant decline in mortgage loan originations. Originations were $2.1 billion in 1994 as compared with $4.8 billion in 1993. The size of the origination network was reduced proportionately.

A servicing purchase program was initiated during 1994. Portfolios totaling $1.7 billion were acquired, and another $2.3 billion in servicing was under contract as of December 31, 1994. During 1994, the servicing portfolio grew to a record $10.1 billion.

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 16 residential subdivisions in Austin, Houston, San Antonio and Dallas, Texas. At the end of 1994, land development inventory included 662 residential lots (561 under contract) and 4,766 acres of land. Lot sales for 1994 were 461 as compared with 526 in 1993 and 487 in 1992.

The Company owns 11 commercial properties consisting of two hotels, three office buildings, two retail centers and four parcels of commercial land.

Selected financial information related to these activities is shown below.

Real Estate Group Operations Summary

Years ended December 31	1994	1993	1992
		(in millions)	
Revenues:			
Residential	$ 8.4	$ 8.0	$ 5.5
Commercial	21.1	18.3	15.9
Interest and other	4.6	7.9	10.3
Total	$34.1	$34.2	$31.7
Income (Loss) Before Taxes:			
Residential	$(2.6)	$(3.5)	$(8.9)
Commercial	2.1	1.1	(.7)
Interest and other	(.1)	.9	2.0
Total	$(.6)	$(1.5)	$(7.6)

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	1994	1993	1992
		(in millions)	
Assets	$19.7	$18.6	$31.7
Liabilities[a]	18.6	17.5	32.8
Equity	1.1	1.1	(1.1)

[a] *Although the Company's pro rata share of joint venture notes payable total $14.9 million, the joint venture partners are in most instances jointly and severally liable for notes payable. The gross balance of these notes was $33.4 million at December 31, 1994. 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 Managers, Inc., 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. This agency also acts as the risk management department of the Company. Timberline currently has offices in Austin, Baytown, Dallas, El Paso and San Antonio, Texas.

A summary of revenues and income before taxes is shown below.

Insurance Operations Summary Years ended December 31	1994	1993	1992
		(in millions)	
Revenues	$18.4	$21.1	$21.8
Income before taxes	3.8	4.0	6.2

ENVIRONMENTAL MATTERS

The Company is committed to protecting the health and welfare of its employees, the public, and the 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 1995 through 1997 will average $15 million each year.

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 the Company currently estimates that these expenditures may 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.

	1994	1993	1992
		(in millions)	
Capital Expenditures			
Corrugated container	$114.9	$ 87.5	$214.9
Bleached paperboard	275.1	200.5	87.9
Building products	43.4	26.1	16.1
Timber and timberlands	28.5	22.5	36.5
Other activities	1.2	3.7	3.3
Total manufacturing group	$463.1	$340.3	$358.7

Capital expenditures of approximately $440 million are projected for 1995. Commitments on construction projects totaled $105 million at the end of 1994.

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

	1994	1993	1992
		(in millions)	
Parent Company Interest—Net			
Interest expense	$94.7	$81.9	$72.3
Interest income	(.6)	(.4)	(.6)
Capitalized interest	(27.7)	(12.5)	(24.3)
Interest expense—net	$66.4	$69.0	$47.4

Interest expense increased in 1994 and 1993 due to the higher levels of debt outstanding. Interest capitalized more than doubled in 1994 because of the $500 million bleached paperboard group's modernization projects which are expected to be operational late in the second half of 1995. Parent Company interest paid during 1994, 1993 and 1992 was $89.2 million, $80.9 million and $66.3 million, respectively. The Company anticipates that debt maturities will be repaid from cash generated by operations or refinanced.

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SELECTED FINANCIAL DATA

For The Year	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
					(in millions, except per share data)						
Total revenues	$ 2,938	$ 2,736	$ 2,713	$ 2,507	$2,401[a]	$1,943	$1,814	$1,642	$1,343	$1,282	$1,299
Manufacturing net sales	2,306	2,101	2,075	1,898	1,892	1,894	1,774	1,603	1,296	1,243	1,263
Net income	131	117[b]	147	138	232[a]	207	199	141	81	85	103
Capital expenditures:											
Manufacturing	463	340	359	378	324	260	219	139	103	184	130
Financial services	20	14	11	9	4	9	4	1	1	-	-
Depreciation and depletion:											
Manufacturing	200	191	167	158	140	126	112	94	79	66	63
Financial services	8	6	5	4	5	2	2	1	1	1	1
Earnings per share	2.35	2.11[b]	2.65	2.51	4.20[a]	3.75	3.58	2.34	1.32	1.40	1.69
Dividends per common share	1.02	1.00	.96	.88	.80	.58	.42	.35	.29	.26	.20
Average shares outstanding	55.9	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	56.0	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	$12,251	$11,959	$10,766	$10,068	$7,834[c]	$6,390	$2,247	$2,020	$1,894	$1,594	$1,510
Long-term debt:											
Parent company	1,316	1,045	964	864	501	399	417	416	366	248	251
Financial services	82	76	99	76	94	30	25	30	25	14	13
Ratio of total debt to total capitalization—parent company	43%	39%	38%	37%	28%	24%	29%	31%	28%	23%	24%
Shareholders' equity	1,783	1,700	1,633	1,532	1,439	1,259	1,096	927	929	864	793

COMMON STOCK PRICES AND DIVIDEND INFORMATION

	1994			1993		
	Price Range			Price Range		
	High	Low	Dividends	High	Low	Dividends
First Quarter	$54 3/4	$45 3/4	$.25	$52 1/2	$45 3/4	$.25
Second Quarter	50 3/4	43 3/4	.25	47 1/8	41 3/8	.25
Third Quarter	56 3/4	46 7/8	.25	45 3/4	40 1/2	.25
Fourth Quarter	56 3/4	43	.27	51 1/4	37 1/4	.25
Year	56 3/4	43	1.02	52 1/2	37 1/4	1.00

[a] *Includes operating results from consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.*
[b] *Includes a $50 million or $.90 per share from cumulative effect of accounting changes.*
[c] *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	1994	1993	1992
		(in millions)	
Revenues			
Net sales	$2,306	$2,101	$2,075
Financial services earnings	56	68	64
	2,362	2,169	2,139
Costs and Expenses			
Cost of sales	1,900	1,807	1,729
Selling and administrative	206	199	188
	2,106	2,006	1,917
Operating Income	256	163	222
Interest—net	(66)	(69)	(47)
Other	3	2	2
Income Before Taxes and Accounting Changes	193	96	177
Taxes on income	62	29	30
Income Before Accounting Changes	131	67	147
Cumulative effect of accounting changes	-	50	-
Net Income	$ 131	$ 117	$ 147

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	1994	1993
		(in millions)
ASSETS		
Current Assets		
Cash	$ 13	$ 9
Receivables, less allowances of $8 in 1994 and $7 in 1993	244	199
Inventories:		
Work in process and finished goods	84	78
Raw materials	184	180
	268	258
Prepaid expenses	16	12
Total Current Assets	541	478
Investment in Financial Services	555	488
Property and Equipment		
Buildings	392	376
Machinery and equipment	2,844	2,723
Less allowances for depreciation	(1,593)	(1,437)
	1,643	1,662
Construction in progress	516	239
	2,159	1,901
Timber and timberlands—less depletion	431	411
Land	31	34
Total Property and Equipment	2,621	2,346
Other Assets	147	92
TOTAL ASSETS	$3,864	$3,404

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	1994	1993
	(in millions)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 316	$ 245
Federal income taxes payable	-	44
Employee compensation and benefits	25	20
Short-term borrowings	38	24
Current portion of long-term debt	14	3
Total Current Liabilities	393	336
Long-Term Debt	1,316	1,045
Deferred Income Taxes	229	176
Postretirement Benefits	126	122
Other Liabilities	17	25
Shareholders' Equity	1,783	1,700
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,864	$3,404

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	1994	1993	1992
		(in millions)	
Cash Provided by (Used for) Operations			
Net income	$131	$117	$147
Adjustments to reconcile net income to net cash:			
Cumulative effect of accounting changes	-	(50)	-
Depreciation and depletion	200	191	167
Deferred taxes	32	(15)	20
Unremitted earnings of affiliated companies	(41)	(48)	(53)
Receivables	(41)	15	(2)
Inventories	(1)	(10)	(23)
Prepaid expenses	(2)	(6)	8
Accounts payable and accrued expenses	(17)	47	22
Other assets and liabilities	(30)	(4)	17
Other	(2)	8	(23)
	229	245	280
Cash Provided by (Used for) Investments			
Capital expenditures	(463)	(340)	(359)
Sale of property and equipment, net	19	19	12
Manufacturing acquisitions, net	(60)	-	(6)
Dividends from financial services	30	42	9
	(474)	(279)	(344)
Cash Provided by (Used for) Financing			
Additions to debt	313	83	308
Payments of debt	(24)	(4)	(200)
Construction funds held by trustees	-	7	(7)
Issuance of common stock for stock plans	18	8	9
Purchase of stock for treasury	(1)	(3)	(2)
Cash dividends paid to shareholders	(57)	(55)	(53)
	249	36	55
Net increase (decrease) in cash	4	2	(9)
Cash at beginning of year	9	7	16
Cash at end of year	$ 13	$ 9	$ 7

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 (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 39 through 46 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 $83.8 million in 1994 and $86.2 million in 1993 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories of $184.4 million in 1994 and $171.9 million in 1993 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 $19.4 and $9.0 million higher than reported at year end 1994 and 1993, 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 equipment is being depreciated based on operating hours because depreciation occurs 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 harvested 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:

	1994	1993
	(in millions)	
Bank Loans—Weighted average interest rate was 4.16% and 3.24% during 1994 and 1993, respectively	$ -	$ 19.0
Commercial Paper—Weighted average interest rate was 4.26% and 3.16% during 1994 and 1993, respectively	172.0	52.5
8.375% Notes Payable due 1996	70.0	70.0
8.73% to 9.0% Notes Payable due 1995 to 1998	190.0	200.0
9.0% Notes Payable due 2001	200.0	200.0
8.125% to 8.38% Notes Payable due 2006	100.0	100.0
7.25% Notes Payable due 2004	100.0	100.0
8.25% Debentures due 2022	150.0	150.0
7.04% Private Placement Debt due 1998	80.0	-
7.31% Private Placement Debt due 1999	70.0	-
Revenue Bonds due 2014—Average interest rate was 2.58% and 2.19% during 1994 and 1993, respectively	34.5	34.5
Revenue Bonds due through 2009—Average interest rate was 3.04% and 2.6% during 1994 and 1993, respectively	11.7	11.7
Other Revenue Bonds due through 2028, weighted average interest rate of 3.21% and 2.61% during 1994 and 1993, respectively	123.7	95.3
Other indebtedness due through 2006, weighted average interest rate of 7.98% and 10.24% during 1994 and 1993, respectively	13.9	11.8
	$1,315.8	$1,044.8

In July 1994, the Company privately placed $80 million of 7.04 percent notes due 1998 and $70 million of 7.31 percent notes due 1999. Proceeds of the notes were used to repay short-term floating rate debt. Also, in October 1994, the Company, through a subsidiary, issued $21.4 million in tax-exempt financing related to certain assets at the Company's Hope, Arkansas particleboard mill currently under construction.

At December 31, 1994, $172 million in commercial paper was 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 at various dates in 1997, and are available for general corporate use.

At year end 1994, property and equipment of approximately $49.7 million were subject to liens in connection with $64.9 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 $1.3 billion at December 31, 1994.

Aggregate maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 1995—$14.1; 1996—$167.3; 1997—$179.0; 1998—$171.2; and 1999—$71.2. For an analysis of net interest expense, see page 31.

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SUMMARIZED STATEMENTS OF INCOME

Temple-Inland Financial Services Group

For the year	1994	1993	1992
		(in millions)	
Interest income			
Loans receivable and mortgage loans held for sale	$245	$173	$152
Mortgage-backed and investment securities	190	242	307
Covered Assets (including FDIC yield maintenance of $2 in 1994, $14 in 1993 and $14 in 1992)	30	25	36
Other earning assets	31	50	19
Total interest income	496	490	514
Interest expense			
Deposits	254	237	310
Borrowed funds	81	99	49
Total interest expense	335	336	359
Net interest income	161	154	155
Provision for loan losses	7	5	3
Net interest income after provision for loan losses	154	149	152
Noninterest income			
Loan servicing fees	34	29	29
Loan origination and marketing	17	45	29
Other	85	71	66
Total noninterest income	136	145	124
Noninterest expense			
Compensation and benefits	108	112	87
Other (net of reimbursements from FDIC of $89 in 1994, $24 in 1993 and $68 in 1992)	126	114	125
Total noninterest expense	234	226	212
Income before taxes and accounting change	56	68	64
Taxes on income	15	19	11
Income before accounting change	41	49	53
Cumulative effect of accounting change	-	52	-
Net Income	$ 41	$101	$ 53

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	1994	1993
		(in millions)
ASSETS		
Cash and cash equivalents	$ 302	$ 156
Mortgage loans held for sale	130	630
Loans receivable	3,675	2,755
Mortgage-backed and investment securities	3,964	4,407
Covered Assets	418	664
Other assets	519	521
TOTAL ASSETS	$9,008	$9,133
LIABILITIES		
Deposits	$6,598	$6,362
Securities sold under repurchase agreements	1,365	1,571
Advances from Federal Home Loan Bank	155	154
Other borrowings	82	76
Other liabilities	265	458
TOTAL LIABILITIES	8,465	8,621
SHAREHOLDER'S EQUITY	543	512
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$9,008	$9,133

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

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SUMMARIZED STATEMENTS OF CASH FLOWS

Temple-Inland Financial Services Group

For the year	1994	1993	1992
		(in millions)	
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	$ 41	$ 101	$ 53
Adjustments to reconcile net income to net cash:			
Cumulative effect of accounting change	-	(52)	-
Provision for amortization, depreciation and accretion	20	19	28
Gain on sales of securities held-to-maturity	-	(1)	(5)
Receivable from FDIC	19	(1)	119
Mortgage loans held for sale	500	(174)	(192)
Other	(161)	175	69
	419	67	72
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Purchases of securities available-for-sale	(146)	-	-
Maturities of securities available-for-sale	17	-	-
Purchases of securities held-to-maturity	(229)	(295)	(2,239)
Maturities of securities held-to-maturity	790	1,156	1,306
Loans originated or acquired net of principal collected on loans	(823)	(670)	(135)
Proceeds from sales of securities held-to-maturity and loans	-	24	129
Reduction in Covered Assets	244	127	473
Savings bank acquisitions, net	200	(76)	-
Capital expenditures	(20)	(14)	(11)
Other	12	4	-
	45	256	(477)
CASH PROVIDED BY (USED FOR) FINANCING			
Net decrease in deposits	(92)	(310)	(891)
Net increase (decrease) in securities sold under repurchase agreements and short-term borrowings	(205)	111	1,274
Additions to debt	35	49	-
Payments of debt	(30)	(83)	(8)
Dividends paid to Parent	(30)	(42)	(9)
Other	4	(9)	1
	(318)	(284)	367
Net increase (decrease) in cash and cash equivalents	146	39	(38)
Cash and cash equivalents at beginning of year	156	117	155
Cash and cash equivalents at end of year	$ 302	$ 156	$ 117

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, 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.

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.

The Group will adopt Financial Accounting Standards Board ("FASB") Statement No. 114, "Accounting by Creditors for Impairment of a Loan" as amended by Statement No. 118, effective January 1, 1995. As a result of applying the new rules, certain impaired loans will be reported at the present value of expected future cash flows using the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The Group does not expect application of the new rules to have a material impact on the Group's financial statements.

MORTGAGE-BACKED AND INVESTMENT SECURITIES

As of January 1, 1994, the Group adopted FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities". In accordance with Statement No. 115, prior period financial statements have not been restated to reflect the change in accounting principle. The adoption of this standard had no material impact on the Group's financial statements.

The Group determines the appropriate classification of mortgage-backed and investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity and stated at amortized cost when the Group has both the positive intent and ability to hold the securities to maturity. Debt securities on which the Group does not have the positive intent and ability to hold to maturity and marketable equity securities are classified as available-for-sale and are stated at fair value with any unrealized gains and losses, net of tax, reported as a component of stockholder's equity.

The cost of securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts by a method that approximates the interest method over the estimated lives of the securities. Should any such assets be sold, gains and losses are recognized based on the specific-identification method.

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.

NOTE B - ACQUISITIONS

SAVINGS BANK

On June 17, 1994, the Savings Bank purchased substantially all of the net assets of First Federal Savings Bank of San Antonio ("FFSB"). Total assets of FFSB at acquisition were approximately $363 million which consisted primarily of mortgage loans and cash. At closing, the Savings Bank paid an estimated cash purchase price of approximately $43 million and assumed liabilities (primarily deposits) of approximately $342 million.

On November 12, 1993, the Savings Bank completed the acquisition of all of the outstanding stock of American Federal Bank, F.S.B. ("AFB") for a cash purchase price of approximately $156 million. Total assets of AFB at acquisition were approximately $1.3 billion which consisted primarily of residential and commercial mortgage loans and Covered Assets. Funds held in escrow as recourse of the Savings Bank for certain post-closing claims it may have against the seller total $15 million at December 31, 1994.

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Both acquisitions were accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of AFB and FFSB at the acquisition dates were adjusted to their estimated fair values, which approximated the respective purchase price. The operating results are included in the accompanying financial statements from the acquisition dates. The unaudited pro forma results of operations of the Group, assuming FFSB and AFB had been acquired January 1, 1993 and 1992 respectively, would not have been materially different from those reported.

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 45 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, 1994, no securities purchased under resell agreements were outstanding. At December 31, 1993, securities purchased under resell agreements totaled $20 million and are included in cash and cash equivalents in the accompanying balance sheet. These agreements, purchased at par, matured on January 3, 1994, at which time the same securities were resold. The collateral underlying these agreements consisted of single-family residential loans.

Securities purchased under resell agreements averaged approximately $551.8 million and $1.2 billion during 1994 and 1993, respectively, and the maximum amounts outstanding at any month-end during 1994 and 1993 were $1.2 billion and $924.6 million, respectively.

NOTE D - LOANS RECEIVABLE

Loans receivable consist of the following:

At year end	1994	1993
	(in millions)	
Real estate mortgage	$3,137.5	$2,302.9
Construction and development	1,022.6	643.7
Commercial	229.0	80.7
Consumer and other	366.0	404.1
	4,755.1	3,431.4
Less:		
Unfunded portion of loans	1,027.7	614.0
Unamortized purchase premiums and discounts	(4.5)	11.9
Net deferred fees	3.2	2.2
Allowance for loan losses	53.9	47.9
	1,080.3	676.0
	$3,674.8	$2,755.4

Activity in the allowance for loan losses is as follows:

For the year	1994	1993	1992
		(in millions)	
Balance, beginning of year	$47.9	$20.8	$19.5
Provision for loan losses	6.5	4.8	2.6
Additions related to acquisitions and bulk purchases of loans	7.6	24.0[a]	1.4
Charge-offs, net of recoveries	(8.1)[a]	(1.7)	(2.7)
Balance, end of year	$53.9	$47.9	$20.8

[a] *Principally related to the loan portfolio from the acquisition of AFB.*

Real estate and construction loans are secured primarily by one- to four-family residential or commercial properties located in Texas and California. At December 31, 1994, the Savings Bank had commitments to originate or purchase variable rate loans totaling $1.5 billion.

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NOTE E - MORTGAGE-BACKED AND INVESTMENT SECURITIES

Mortgage-backed and investment securities consist of the following:

At year end 1994	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
Held-to-maturity				
Mortgage-backed securities:				
FNMA certificates	$2,081.3	$ -	$(107.6)	$1,973.7
FHLMC certificates	426.5	-	(20.7)	405.8
GNMA certificates	5.3	-	(.2)	5.1
Collateralized mortgage obligations	436.6	-	(32.9)	403.7
Private issuer pass-through securities	810.7	-	(49.8)	760.9
	3,760.4	-	(211.2)	3,549.2
Other, primarily corporate debt securities	1.9	-	-	1.9
	$3,762.3	$ -	$(211.2)	$3,551.1
Available-for-sale				
Mortgage-backed securities:				
FNMA certificates	$ 118.0	$ .4	$ (1.0)	$ 117.4
FHLMC certificates	20.4	-	(.1)	20.3
	138.4	.4	(1.1)	137.7
Equity securities:				
Federal Home Loan Bank stock	63.2	-	-	63.2
Other	1.0	-	-	1.0
	64.2	-	-	64.2
	$ 202.6	$ .4	$ (1.1)	$ 201.9

At year end 1993	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
Mortgage-backed securities:				
FNMA certificates	$2,347.0	$ 6.4	$ (22.2)	$2,331.2
FHLMC certificates	397.8	.9	(4.1)	394.6
GNMA certificates	6.1	.3	-	6.4
Collateralized mortgage obligations	539.2	.8	(6.4)	533.6
Private issuer pass-through securities	1,046.1	1.7	(9.1)	1,038.7
	4,336.2	10.1	(41.8)	4,304.5
Equity securities:				
Federal Home Loan Bank stock	68.9	-	-	68.9
Other	.1	.5	-	.6
	69.0	.5	-	69.5
Other, primarily corporate debt securities	2.1	-	-	2.1
	$4,407.3	$10.6	$ (41.8)	$4,376.1

The mortgage loans underlying mortgage-backed securities have adjustable interest rates and 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 considered investment grade quality by third party rating agencies. The collateral underlying these securities is primarily residential properties located in California.

NOTE F - COVERED ASSETS

In connection with the acquisition of Guaranty Federal Savings Bank ("Guaranty") in 1988, the Company entered into an assistance agreement with the Federal Savings and Loan Insurance Corporation ("FSLIC"). In August 1989, the obligations of FSLIC, under the Guaranty assistance agreement and the AFB assistance agreement referred to below, were assumed by the FSLIC Resolution Fund, a government sponsored entity managed by the Federal Deposit Insurance Corporation ("FDIC"). Under the terms of the Guaranty assistance agreement, which is scheduled to expire in 1998, the FDIC agreed to provide continuing financial assistance consisting of notes from the FDIC, a guaranteed yield on the book value of certain assets acquired from the FDIC ("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 FDIC. Sums due under the terms of these assistance agreements are referred to therein as FDIC receivables.

Current discussions with FDIC could result in early termination of both assistance agreements, which management believes will have no material adverse effect on the Group's financial position.

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

At year end	1994	1993
	(in millions)	
Loans	$354.3	$421.7
Investments in real estate	67.3	221.3
Advances to and investments in subsidiaries	(9.3)	15.1
Other assets	5.8	6.2
	$418.1	$664.3

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NOTE G - DEPOSITS

Deposits consist of the following:

At year end	1994 Rate	1994 Amount	1993 Rate	1993 Amount
		(dollars in millions)		
Noninterest bearing demand	-%	$ 185.3	-%	$ 224.9
Interest bearing demand	2.75%	1,255.7	2.42%	1,518.9
Savings deposits	2.25%	247.4	2.50%	224.8
Time deposits	5.19%	4,901.8	4.91%	4,377.7
		6,590.2		6,346.3
Deposit premium		8.1		16.0
		$6,598.3		$6,362.3

Scheduled maturities of time deposits outstanding at December 31, 1994, are as follows:

Time deposits in amounts of:	$100,000 or more	Less than $100,000	Total
	(in millions)		
3 months or less	$ 93.3	$ 686.3	$ 779.6
Over 3 through 6 months	82.8	674.2	757.0
Over 6 through 12 months	129.9	920.6	1,050.5
Over 12 months	288.2	2,026.5	2,314.7
	$594.2	$4,307.6	$4,901.8

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

For the year	1994	1993	1992
		(in millions)	
Interest on deposits	$262.9	$241.1	$312.7
Interest on borrowed funds	79.0	99.2	44.4
Total Interest Paid	$341.9	$340.3	$357.1

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 sixty days.

Information concerning borrowings under repurchase agreements is summarized as follows:

	1994	1993
	(dollars in millions)	
At year-end:		
Weighted average interest rate	6.11%	3.25%
Mortgage-backed securities pledged to secure the agreements:		
Carrying value	$1,502.8	$1,641.5
Estimated market value	1,426.3	1,629.6
During the year:		
Average balance	1,598.0	2,734.2
Maximum month-end balance	2,300.2	2,437.2

NOTE I - ADVANCES FROM FEDERAL HOME LOAN BANK

Pursuant to collateral agreements with the Federal Home Loan Bank ("FHLB"), advances are secured by a blanket floating lien on the Savings Bank's assets. The weighted average interest rate of the advances was 6.72 percent and 5.02 percent at December 31, 1994 and 1993, respectively. At December 31, 1994, the advances have calendar year maturity dates as follow (in millions): 1996—$100.0; 1997—$2.4; 1998—$2.6; 1999—$51.7.

NOTE J - OTHER BORROWINGS

Other borrowings, which represent borrowings of nonsaving bank entities, consist of the following:

At year end	1994	1993	1992
		(in millions)	
Long-term debt at various rates which approximate prime, secured primarily by real estate	$81.7	$76.3	$99.1

Aggregate maturities of the Group's long-term debt during the next five years are as follows (in millions): 1995—$22.3; 1996—$40.6; 1997—$2.6; 1998—$.9; 1999—$.9; 2000 and thereafter—$14.4.

NOTE K - LOAN SERVICING

The Group services real estate loans that are owned by independent investors. The Group serviced approximately 149,500 and 144,700 mortgage loans aggregating $10.1 billion and $9.1 billion as of December 31, 1994 and 1993, 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 on 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 1994 in connection with this risk.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB Statement No. 107, "Disclosure About Fair Value of Financial Instruments", defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Group.

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The carrying amounts and fair values of the Group's financial instruments are as follows:

	1994		1993	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial assets				
Cash and cash equivalents	$ 301.8	$ 301.8	$ 156.3	$ 156.3
Loans receivable, net	3,674.8	3,624.2	2,755.4	2,820.6
Mortgage loans held for sale	130.4	130.4	630.1	630.1
Mortgage-backed and investment securities, net	3,964.2	3,753.0	4,407.3	4,376.1
Related interest rate corridors	7.7	3.3	8.5	3.0
Covered Assets and FDIC receivables (see Note F)	432.5	432.5	698.5	698.5
Financial liabilities				
Deposits	(6,598.3)	(6,567.3)	(6,362.3)	(6,452.3)
Securities sold under repurchase agreements	(1,365.2)	(1,365.2)	(1,570.7)	(1,570.7)
Advances from FHLB	(154.5)	(156.1)	(154.1)	(163.5)
Other borrowings	(81.7)	(81.7)	(76.3)	(76.3)
Off-balance-sheet instruments				
Commitments to extend credit	-	(4.3)	-	(.5)
Interest rate swaps	-	(.9)	-	(1.2)

The following methods and assumptions were used by the Group in estimating fair value of financial instruments:

Short-term financial instruments: The carrying amounts of short-term financial instruments approximates those instruments' fair value due to the short-term to maturity. This approach is applied to cash and cash equivalents, mortgage loans held for sale, and securities sold under repurchase agreements.

Mortgage-backed and investment securities: Fair values of 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.

Interest rate contracts: Fair values of interest rate contracts generally reflect the estimated amounts the Group would receive or pay to terminate the contracts as of the reporting date, thereby taking into account the current unrealized gains or losses on open contracts. Dealer quotes are available for most of the Group's interest rate contracts.

Loans receivable: Fair values for mortgage and consumer loans are estimated using discounted cash flow analyses. The discount rates and prepayment assumptions utilized represent those currently observed in the markets for comparable loan products. Variable rate loans reprice frequently and have had no significant change since origination in credit risk; therefore, carrying amounts approximate fair values.

Covered Assets and FDIC receivables: The carrying amounts of Covered Assets and FDIC receivables approximate fair values due to quarterly repricing of FDIC yield maintenance at market rates.

Deposits: Fair values of noninterest bearing demand, interest bearing demand and savings deposits are, by definition, equal to the amounts payable on demand (i.e., the carrying amounts). The fair values of time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of similar maturities.

Advances from FHLB: Fair values of advances from FHLB are estimated using discounted cash flow analyses based on current FHLB rates for similar borrowing arrangements.

Other borrowings: Fair values of other borrowings are estimated using discounted cash flow analyses based on current market rates for borrowings with similar terms and conditions.

NOTE M - INTEREST RATE RISK MANAGEMENT

The operations of the Savings Bank are subject to a risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. To optimize net interest income while maintaining acceptable levels of interest rate and liquidity risk, the Savings Bank enters into various types of interest rate contracts for purposes other than trading.

During 1994, the Savings Bank entered into an interest rate swap to better match the different floating rate indices of its debt and earning assets, thus reducing the impact of interest rate changes on future income. Under this swap with a notional amount of $600 million, the Savings Bank pays interest at a variable rate based on the FHLB Eleventh District Cost of Funds Index ("EDCOF") less 28 basis points (3.91 percent at December 31, 1994) and receives interest at a variable rate based on the 30-day LIBOR not to exceed 4.75 percent (4.75 percent at December 31, 1994). This agreement matures in 1995.

During 1993, the Savings Bank entered into interest rate corridor agreements to reduce the impact of increases in interest rates on its investments in adjustable rate mortgage-backed securities that have annual or lifetime interest rate caps. Under these agreements with notional amounts totaling $500 million, the Savings Bank simultaneously purchased and sold caps whereby it receives interest if the variable rate based on EDCOF exceeds an average strike rate of 8.81 percent and pays interest if the same variable rate exceeds a strike rate of 11.75 percent. These agreements become effective in 1995 and mature through 2003.

The net amount payable or receivable on interest rate contracts is recorded on an accrual basis as an adjustment to interest income or expense. Premiums paid for purchased interest rate cap agreements, net of premium received for those sold, are included in the carrying value of the related interest-earning assets or interest-bearing liabilities and amortized as an adjustment to the yield of the designated assets or liabilities over the contract periods.

The amounts potentially subject to credit risks are the streams of payments receivable by the Savings Bank under the terms of the contracts and not the notional amounts used to express the volumes of these transactions. The Savings Bank minimizes its exposure to credit risk by entering into contracts with major U.S. securities firms.

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NOTE N - REGULATORY CAPITAL MATTERS

The Savings Bank is subject to certain regulatory capital requirements. Failure to meet these capital requirements exposes an institution to regulatory sanctions, including limitation on asset growth. At December 31, 1994, the Savings Bank met these capital requirements.

	Savings Bank		Regulatory Requirement	
	$	%	$	%
	(dollars in millions)			
Tangible capital	$402	4.61%	$131	1.50%
Leverage capital	402	4.61%	262	3.00%
Risk-based capital	414	11.17%	296	8.00%

The payment of dividends from the Savings Bank is subject to regulatory approval.

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CONSOLIDATED STATEMENTS OF INCOME

Temple-Inland Inc. and Subsidiaries

For the year	1994	1993	1992
		(in millions)	
Revenues			
Manufacturing net sales	$2,306	$2,101	$2,075
Financial services revenues	632	635	638
	2,938	2,736	2,713
Costs and Expenses			
Manufacturing costs and expenses	2,106	2,006	1,917
Financial services expenses	576	567	574
	2,682	2,573	2,491
Operating Income	256	163	222
Parent company interest—net	(66)	(69)	(47)
Other	3	2	2
Income Before Taxes and Accounting Changes	193	96	177
Taxes on income	62	29	30
Income Before Accounting Changes	131	67	147
Cumulative effect of accounting changes	-	50	-
Net Income	$ 131	$ 117	$ 147
Earnings per Share:			
Before Accounting Changes	$2.35	$1.21	$2.65
Effect of Accounting Changes	-	.90	-
Earnings Per Share	$2.35	$2.11	$2.65

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CONSOLIDATING BALANCE SHEETS

Temple-Inland Inc. and Subsidiaries

At year end 1994	Parent Company	Financial Services	Consolidated
		(in millions)	
ASSETS			
Cash and cash equivalents	$ 13	$ 302	$ 315
Mortgage loans held for sale	-	130	130
Loans receivable	-	3,675	3,675
Investments	-	3,964	3,964
Covered assets	-	418	418
Trade and other receivables	244	-	244
Inventories	268	-	268
Property and equipment	2,621	50	2,671
Other assets	163	469	566
Investment in affiliates	555	-	-
TOTAL ASSETS	$3,864	$9,008	$12,251
LIABILITIES			
Deposits	$ -	$6,598	$ 6,598
Securities sold under repurchase agreements and Federal Home Loan Bank advances	-	1,520	1,520
Other liabilities	410	265	663
Long-term debt	1,316	82	1,398
Deferred income taxes	229	-	163
Postretirement benefits	126	-	126
TOTAL LIABILITIES	$2,081	$8,465	$10,468
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
Additional paid-in capital			305
Translation and other adjustments			(10)
Retained earnings			1,556
			1,912
Cost of shares held in the treasury: 5,370,976 shares			(129)
TOTAL SHAREHOLDERS' EQUITY			1,783
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$12,251

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 millions)	
ASSETS			
Cash	$ 9	$ 156	$ 165
Mortgage loans held for sale	-	630	630
Loans receivable	-	2,755	2,755
Investments	-	4,407	4,407
Covered assets	-	664	664
Trade and other receivables	199	-	199
Inventories	258	-	258
Property and equipment	2,346	37	2,383
Other assets	104	484	498
Investment in affiliates	488	-	-
TOTAL ASSETS	$3,404	$9,133	$11,959
LIABILITIES			
Deposits	$ -	$6,362	$ 6,362
Securities sold under repurchase agreements and Federal Home Loan Bank advances	-	1,725	1,725
Other liabilities	361	458	812
Long-term debt	1,045	76	1,121
Deferred income taxes	176	-	117
Postretirement benefits	122	-	122
TOTAL LIABILITIES	$1,704	$8,621	$10,259
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
Additional paid-in capital			297
Retained earnings			1,482
			1,840
Cost of shares held in the treasury: 5,908,173 shares			(140)
TOTAL SHAREHOLDERS' EQUITY			1,700
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$11,959

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 CASH FLOWS

Temple-Inland Inc. and Subsidiaries

For the year	1994	1993	1992
		(in millions)	
Cash Provided by (Used for) Operations			
Net income	$ 131	$ 117	$ 147
Adjustments to reconcile net income to net cash:			
Cumulative effect of accounting changes	-	(50)	-
Depreciation and depletion	208	197	172
Deferred taxes and tax credits	47	(2)	20
Amortization and accretion	12	13	23
Receivable from FDIC	19	(1)	119
Mortgage loans held for sale	500	(174)	(192)
Receivables	(41)	15	(2)
Inventories	(1)	(10)	(23)
Accounts payable and accrued expenses	(16)	49	22
Other	(210)	158	67
	649	312	353
Cash Provided by (Used for) Investments			
Capital expenditures	(483)	(354)	(370)
Sale of property and equipment, net	19	19	12
Purchases of securities available-for-sale	(146)	-	-
Maturities of securities available-for-sale	17	-	-
Purchases of securities held-to-maturity	(229)	(295)	(2,239)
Maturities of securities held-to-maturity	790	1,156	1,306
Loans originated net of principal collected	(823)	(670)	(135)
Proceeds from sale of securities held-to-maturity and loans	-	24	129
Reduction in Covered Assets	244	127	473
Savings bank acquisitions, net	200	(76)	-
Manufacturing acquisitions, net	(60)	-	(6)
Other	11	4	(1)
	(460)	(65)	(831)
Cash Provided by (Used for) Financing			
Additions to debt	348	132	308
Payments of debt	(54)	(87)	(208)
Net increase (decrease) in securities sold under repurchase agreements and short-term borrowings	(205)	111	1,274
Purchase of stock for treasury	(1)	(3)	(2)
Cash dividends paid to shareholders	(57)	(55)	(53)
Net decrease in deposits	(92)	(310)	(891)
Other	22	5	4
	(39)	(207)	432
Net increase (decrease) in cash and cash equivalents	150	40	(46)
Cash and cash equivalents at beginning of year	165	125	171
Cash and cash equivalents at end of year	$ 315	$ 165	$ 125

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	Other Equity Adjustments	Retained Earnings	Treasury Stock
			(in millions)		
Balance at December 28, 1991	$61	$295	$ -	$1,326	$(151)
Net income	-	-	-	147	-
Dividends paid on common stock—$.96 per share	-	-	-	(53)	-
Stock issued for stock plans—384,192 shares reissued from treasury at cost	-	-	-	-	9
Stock reacquired for treasury—47,431 shares at cost	-	-	-	-	(2)
Balance at January 2, 1993	$61	$295	$ -	$1,420	$(144)
Net income	-	-	-	117	-
Dividends paid on common stock—$1.00 per share	-	-	-	(55)	-
Stock issued for stock plans—310,088 shares reissued from treasury at cost	-	2	-	-	7
Stock reacquired for treasury—79,377 shares at cost	-	-	-	-	(3)
Balance at January 1, 1994	$61	$297	$ -	$1,482	$(140)
Net income	-	-	-	131	-
Translation and other adjustments	-	-	(10)	-	-
Dividends paid on common stock—$1.02 per share	-	-	-	(57)	-
Stock issued for stock plans—608,713 shares reissued from treasury at cost	-	8	-	-	14
Stock reacquired for treasury—71,516 shares at cost	-	-	-	-	(3)
Balance at December 31, 1994	$61	$305	$(10)	$1,556	$(129)

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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. Certain amounts have been reclassified to conform with current year's classification.

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 55,890,000, 55,528,000 and 55,535,000 in 1994, 1993 and 1992, respectively.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, amounts due from banks, securities purchased under resell agreements, federal funds sold, and other short-term highly liquid instruments with original maturities of three months or less.

TRANSLATION OF INTERNATIONAL CURRENCIES

Balance sheets of the Company's international operations are translated into U.S. dollars at year end exchange rates, while statements of earnings are translated at average rates. Adjustments resulting from financial statement translations are reported as a component of shareholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings.

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 prior to 1994, the plans permitted the grant of stock appreciation rights with all or part of any options so granted.

Options for 643,201, 741,379 and 733,501 shares were exercisable at year end 1994, 1993 and 1992, respectively. An additional 1,737,930, 1,990,000 and 1,262,665 shares of common stock were available for grants at year end 1994, 1993 and 1992, respectively.

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

	Common Stock	
	Number of Shares	Price Range Per Share
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
Granted	267,696	$34-$53
Exercised	(319,274)	$12-$36
Forfeited	(68,016)	$22-$54
Outstanding at December 31, 1994	**1,274,862**	**$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 1994, awards of 101,047 shares of common stock were outstanding at an average price of $49.24 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 1995, options to purchase 317,983 shares of stock at an average price of $46.88 were granted and 42,166 shares 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 1994, 1993 and 1992 follows:

	1994	1993	1992
Charges (Credits)		*(in millions)*	
Service cost—benefits earned during the period	$ 12.7	$ 9.6	$ 9.5
Interest cost on projected benefit obligation	28.0	25.7	24.7
Actual return on plan assets	(3.7)	(59.0)	(28.4)
Net amortization and deferral	(38.6)	19.3	(10.1)
Net pension (credit) charge	$ (1.6)	$ (4.4)	$ (4.3)

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

For the years	1994	1993	1992
Discount rate	8.25%	7.25%	8.50%
Expected long-term rate of return	9.00%	9.00%	9.00%
Average increase in compensation levels	5.25%	4.25%	5.50%

The impact of increasing the discount rate will not have a material effect on future earnings. The funded status of employee pension benefit plans at year end 1994 and 1993 is summarized below, based on valuation date of September 30:

	1994	1993
	(in millions)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 322.5	$ 327.2
Nonvested benefits	19.0	29.5
Accumulated benefit obligation	$ 341.5	$ 356.7
Projected benefit obligation for service rendered to date	$(380.7)	$(389.6)
Plan assets at fair value, primarily stocks and bonds	420.3	435.0
Plan assets in excess of projected benefit obligation	39.6	45.4
Prior service cost not yet recognized in net periodic pension cost	.3	(.2)
Unrecognized net loss from past experience different from that assumed	27.0	23.8
Unrecognized net asset at beginning of period, less amortization to date	(26.0)	(31.4)
Net pension asset included in the balance sheet	$ 40.9	$ 37.6

The assets of the plans at December 31, 1994 include 380,998 shares of common stock of the Company having a market value of $17.2 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 year end 1994 and 1993 is as follows, based on valuation date of September 30:

	1994	1993
	(in millions)	
Accumulated Postretirement Benefit Obligation		
Retirees	$ 61.8	$ 64.1
Active participants, eligible to retire	14.6	7.9
All other participants	32.7	31.3
Accrued postretirement benefit cost	109.1	103.3
Plus unrecognized net gains	18.8	18.6
Unrecognized prior service cost	(2.4)	-
Postretirement benefit liability	$125.5	$121.9

The components of net postretirement benefit costs for 1994 and 1993 are as follows:

	1994	1993
	(in millions)	
Service cost for benefits	$1.9	$ 1.7
Interest cost	7.3	9.2
Net amortization and deferral	(.8)	-
Net postretirement charge	$8.4	$10.9

The discount rate used in determining the APBO as of December 31, 1994 was 8.25 percent. The assumed health care cost trend rate used in measuring the APBO was 11 percent in 1994, grading down to 6 percent in years 2010 and later. The assumptions as of January 1, 1994 included a 7.25 percent discount rate and health care trend rates beginning at 12 percent and declining to 6.75 percent in 2007 and thereafter. If the health care cost trend rate assumptions were increased by one percent, the APBO as of December 31, 1994 would be increased by 11 percent. The effect of the change on the components of service cost and interest cost of the net periodic postretirement cost for 1994 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 millions)	
1994		
Federal	$10.7	$ 46.7
Investment tax credit deferred	-	(2.4)
State and other	6.8	-
	$17.5	$ 44.3
1993		
Federal	$67.9	$(45.1)
Investment tax credit deferred	-	(3.0)
State and other	9.1	-
	$77.0	$(48.1)
1992		
Federal	$17.5	$ 10.0
Investment tax credit deferred	-	(3.5)
State and other	6.0	-
	$23.5	$ 6.5

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Significant components of the Company's consolidated deferred tax assets and liabilities as of year end 1994 and 1993 are as follows:

	1994	1993
	(in millions)	
Deferred Tax Liabilities:		
Depreciation	$267.9	$234.4
Depletion	39.6	39.0
Pensions	13.8	12.3
Total deferred tax liabilities	321.3	285.7
Deferred Tax Assets:		
Alternative minimum tax credits	121.0	128.6
Assets with excess tax basis	-	115.5
Net operating loss carryforwards	204.0	102.1
OPEB obligations	43.9	42.7
Other	7.9	11.5
Total deferred tax assets	376.8	400.4
Valuation allowance for deferred tax assets	(219.0)	(231.5)
Net deferred tax assets	157.8	168.9
Net deferred tax liabilities	$163.5	$116.8

The components of the provision for deferred income taxes prior to the adoption of FASB 109 were as follows:

	1992
	(in millions)
Depreciation	$15.7
Investment tax credits	(3.5)
Pension expense	1.2
Other employee benefit plans	(.6)
Other—net	(6.3)
	$ 6.5

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

	1994	1993	1992
		(in millions)	
Taxes on income at statutory rate	$67.7	$33.7	$60.2
Book benefit of FDIC assistance and other permanent items	(10.3)	(10.9)	(32.7)
Investment tax credits	(2.4)	(3.0)	(3.5)
State and foreign taxes	6.8	9.1	6.0
	$61.8	$28.9	$30.0

In fiscal year 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes", whereby the Company was required to adopt the liability method of computing deferred income taxes.

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

As a result of the Omnibus Budget Reconciliation Act of 1993, the Company paid the government $47 million in 1994 for 1991 and 1992 deductions that this legislation eliminated. Income tax payments, net of refunds received, were $58 million, $19 million and $(2) million during 1994, 1993 and 1992, 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 $164 million and $40 million, respectively, at December 1994. If unused, these carryforwards expire through the year 2009. 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.

Deferred taxes are not provided for earnings of non-U.S. subsidiaries that are intended to be permanently reinvested.

NOTE F - BUSINESS SEGMENT INFORMATION

Refer to "Business Segments" on page 25 for information relating to Revenues and Income Before Taxes, and page 31 for information relating to Capital Expenditures for the principal segments of business for the three years 1994, 1993 and 1992.

Additional business segment information is presented below:

For the year	1994	1993	1992
		(in millions)	
Identifiable Assets			
Corrugated container	$ 1,688.4	$ 1,575.7	$ 1,615.2
Bleached paperboard	696.5	523.2	450.7
Building products	432.5	300.0	216.8
Timber and timberlands	465.1	453.7	419.8
Corporate and other activities	26.2	63.6	84.3
	3,308.7	2,916.2	2,786.8
Financial services	9,007.7	9,133.3	7,978.7
Reclassifications and eliminations	(65.7)	(90.2)	-
Total	$12,250.7	$11,959.3	$10,765.5
Depreciation and Depletion			
Corrugated container	$ 120.6	$ 112.5	$ 97.5
Bleached paperboard	43.3	40.1	32.1
Building products	23.2	22.6	22.7
Timber and timberlands	11.2	12.7	12.0
Other activities	2.0	3.2	3.2
	200.3	191.1	167.5
Financial services	7.8	5.8	4.8
Total	$ 208.1	$ 196.9	$ 172.3

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

Selected quarterly financial results for the years 1994 and 1993 are summarized below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions except per share amounts)			
1994				
Total revenues	$706.3	$725.1	$755.0	$751.1
Manufacturing net sales	541.8	573.5	601.2	589.6
Manufacturing gross profit	79.8	89.8	103.8	132.5
Financial services operating income before taxes	17.0	14.4	12.8	12.1
Net income	22.9	26.6	33.1	48.8
Earnings per Share	.41	.48	.59	.87
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

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 31 for a discussion of commitments on construction projects.

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REPORT OF MANAGEMENT

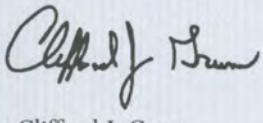
MANAGEMENT REPORT ON FINANCIAL STATEMENTS

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

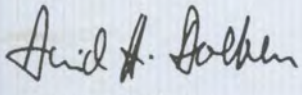
The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied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

The Company's financial statements have been examined by Ernst & Young LLP, 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

REPORT OF INDEPENDENT AUDITORS

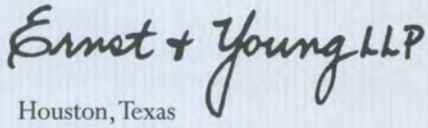
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TEMPLE-INLAND INC.:

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of December 31, 1994 and January 1, 1994, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 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 December 31, 1994 and January 1, 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 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 3, 1995

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SHAREHOLDER INFORMATION

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 LLP
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 5, 1995 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, 1994, there were 8,134 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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DIBOLL, TEXAS 75941



Financial Services