International Paper

Annual Report for 1992

INTERNATIONAL PAPER

Financial Highlights

Dollar amounts and shares in millions, except per share amounts	1992	1991
Financial Summary		
Net Sales	**$13,598**	$12,703
Operating Profit	**570**	1,038
Earnings Before Extraordinary Item and Cumulative Effect of Accounting Changes	**142**[1]	399[2]
Net Earnings	**86**[3]	184[4]
Total Assets	**16,459**	14,941
Common Shareholders' Equity	**6,189**	5,739
Return on Equity	**1.4%**[5]	3.2%[5]
Per Share of Common Stock		
Earnings Before Extraordinary Item and Cumulative Effect of Accounting Changes	**1.17**[1]	3.61[2]
Net Earnings	**.71**[3]	1.66[4]
Cash Dividends Paid	**1.68**	1.68
Common Shareholders' Equity	**50.46**	51.03
Shareholder Profile		
Shareholders of Record at December 31	**33,722**	35,630
Shares Outstanding at December 31	**122.7**	112.5
Average Shares Outstanding	**121.4**	110.5

[1] **$405 million ($3.34 per share) before a $398 million pre-tax productivity improvement charge ($263 million after taxes or $2.17 per share).**

[2] **$452 million ($4.09 per share) before a $60 million pre-tax reduction in force charge ($37 million after taxes or $.33 per share) and $25 million ($16 million after taxes or $.15 per share) of additional expenses related to the adoption of SFAS No. 106.**

[3] Includes an after-tax charge of $50 million or $.41 per share for the cumulative effect of the adoption of SFAS No. 109.

[4] Includes a pre-tax charge of $350 million ($215 million after taxes or $1.95 per share) to record an accrued liability reflecting the cumulative effect of the adoption of SFAS No. 106.

[5] Return on equity was 6.3% in 1992 before the accounting change, extraordinary item and productivity improvement charge. It was 7.8% in 1991 before the accounting change, reduction in force charge and additional expenses related to the adoption of SFAS No. 106.

Contents

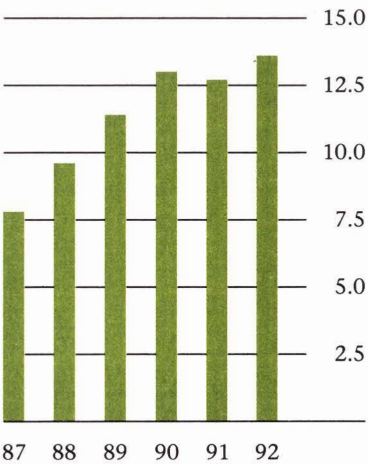
About the cover

The well-known *Hammermill* and *Springhill* brands are synonymous with International Paper. In addition to the reprographic and printing papers shown here, many other coated and uncoated paper products are sold under the *Hammermill* and *Springhill* brands. Customer requirements for these and other brands are delivered by a responsive network of sales, production and distribution facilities throughout the United States.

Performance Profile

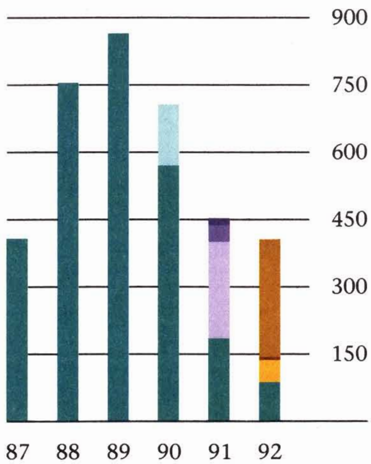
Net Sales

Dollars in billions



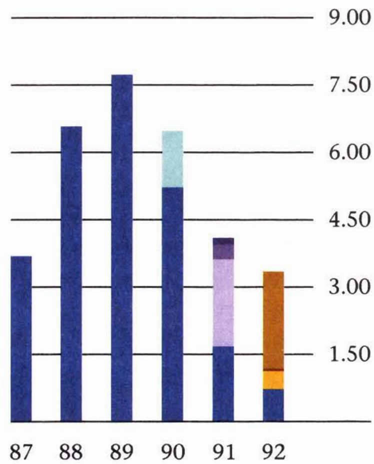
Net Earnings

Dollars in millions



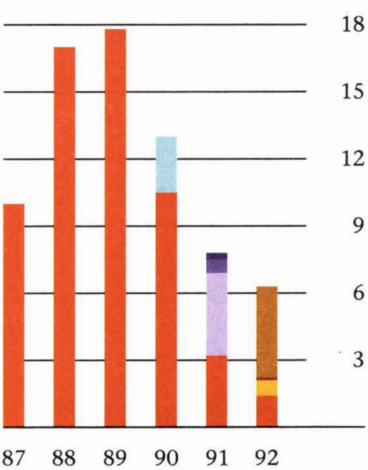
Earnings per Share

Dollars



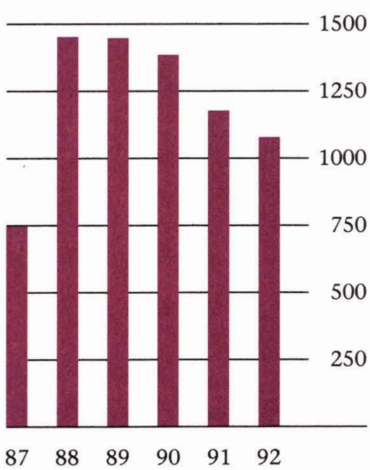
Return on Equity

Percent



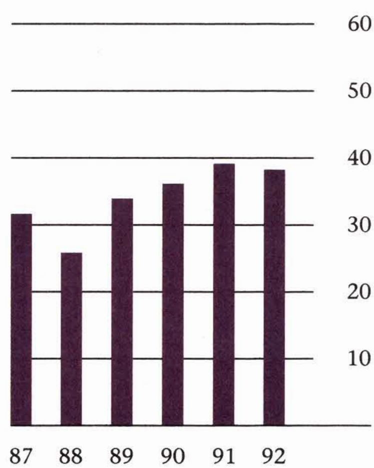
Cash Flow From Operations

Dollars in millions



Total Debt to Capital Ratio

Percent



- Business improvement charge
- Accrual effect of SFAS No. 106, reduction in force charge and accounting change
- Productivity improvement charge, extraordinary item and accounting change

Noteworthy Events of 1992

▮ Achieved record sales totaling $13.6 billion. This compares with $12.7 billion in 1991. Reported net earnings of $86 million or $.71 per share ($405 million or $3.34 per share before unusual items).
See pages 4 and 25.

▮ Completed a public offering of 9.2 million shares of common stock, raising $650 million of new equity.
See pages 37 and 50.

▮ Completed the modernization and integration of the Aussedat Rey pulp mill at Saillat, France, doubling pulp capacity and elevating operations to world-class status. Production began in early 1993.
See pages 15, 26 and 36.

▮ Expanded into Poland with a $150 million acquisition of a modern bleached pulp and paper mill.
See pages 10, 37 and 39.

▮ Expanded our national distribution network by acquiring the assets of Western Paper Company (Western Pacific), a printing and industrial paper distribution business.
See pages 37 and 47.

▮ Joined the industry in the adoption of a set of environmental, health and safety principles proposed by the American Forest and Paper Association.
See page 20.

▮ Progressed toward start-up of a 100 percent recycled-fiber system for business papers at the Lock Haven, Pa., mill.
See pages 21 and 26.

▮ Started up a state-of-the-art paper machine at a Zanders mill in Germany, enhancing production of premium-quality coated paper.
See pages 13, 26 and 36.

▮ Acquired an equity interest in Scitex Corporation Ltd., forming a strategic relationship with a leading worldwide vendor of electronic imaging equipment.
See pages 14, 37 and 39.

▮ Recorded a $398 million charge ($263 million after taxes or $2.17 per share) to establish a productivity improvement reserve to enhance the long-term competitive strength of International Paper.
See pages 25 and 47.

▮ Adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," and recorded an after-tax charge of $50 million ($.41 per share) as the cumulative effect of the accounting change.
See pages 25, 37 and 47.

▮ Introduced Everest™ as the family name for our exceptional line of improved bleached board products.
See pages 14 and 28.

▮ Introduced recycled coated paper grades Miraweb II™, Saratoga™ and Adirondack™, broadening our offering of recycled products.
See page 22.

▮ Opened a plant in Plant City, Fla., serving major juice customers with advanced liquid packaging materials.
See page 23.

To Our Shareholders

It was a difficult year for International Paper. While sales were up, profits declined. Sales in 1992 reached a record \$13.6 billion, seven percent above the 1991 level primarily because of acquisitions made later that year. Earnings after taxes but before special charges were \$405 million, off 10 percent from the \$452 million earned in 1991.

Net earnings for 1992 were \$86 million, after three special charges: \$263 million to cover costs associated with a productivity improvement program, \$50 million to implement a new accounting standard for deferred income taxes, and \$6 million for early retirement of high-cost debt. While the productivity improvement charge reduced earnings for 1992, it will, in time, improve our ability to generate significantly higher profits as overall economic conditions improve.

The two most significant factors affecting our 1992 performance were the slow economic recovery in the United States and the weakening of European markets. These coincided with the addition of substantial industry capacity worldwide in both the coated and uncoated printing papers markets. This overcapacity led to sharply lower prices for both coated and uncoated papers and resulted in a major decline in operating profit for these businesses. The Consumer Packaging businesses were also adversely affected by lower prices as well as by start-up problems at modernized facilities.

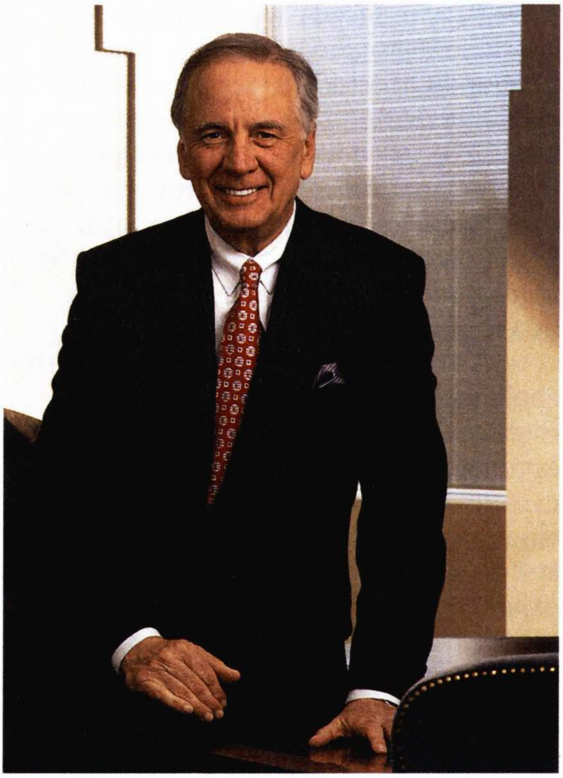
These declines were partially offset by gains in other areas. Industrial Packaging enjoyed stronger demand and demonstrated solid year-over-year operating profit improvement, as did Specialty Products because of impressive sales of CraftMaster™ molded door facings and increased oil and gas production. Profit in our Distribution businesses also increased due to acquisitions and higher sales. Logging restrictions in the Pacific Northwest, aided by a modest recovery in housing starts, led to sharply higher prices for logs and wood products. This resulted in significantly improved results in our Forest Products businesses.

Although 1993 began with prices and earnings under pressure for key paper products, we expect an improving economy to have a favorable impact on our businesses as the year progresses. Increased demand has improved the supply/demand balance in a number of important products. Price increases were announced early this year and are being implemented in some important paper and packaging markets.

Our focus is to continue to position International Paper as a low-cost producer of paper and packaging products, while at the same time forging ahead into new markets for value-added and recycled products. We will also continue to strengthen and expand the wide range of businesses within our Specialty Products operations while profiting from the buoyant markets for logs and wood products.

For the last two years, stagnant world economies have compelled us to make some hard decisions. We have kept expenses under control with strict Company-wide cost constraints, including employee reductions, wage freezes for salaried employees and containment of health care benefits. We have worked hard to maintain our solid financial position and investment-grade rating. Debt to total capital at year end was at 38 percent, within our target range, and operating cash flow for the year was \$1.1 billion.

Nevertheless, even as we have closed down older, inefficient facilities, we have continued to invest for the future. In



"Over the last decade, we have demonstrated the capability to change and grow while aggressively seeking ways to create value for customers and shareholders. I am very optimistic about the ability of our management team, with the help of our dedicated employees, to build on our solid asset base and capital structure to pursue strategies and businesses that will strengthen our Company during the years ahead."

John A. Georges
Chairman and Chief Executive Officer

1992, some $400 million of the Company's $1.4 billion of capital expenditures was used to modernize and expand our European papers operations. We brought a state-of-the-art paper machine on-line at Zanders in Germany in July. The expansion and modernization of our pulp facilities at Aussedat Rey's primary mill in Saillat, France, was recently completed well ahead of schedule. Capital expenditures of $1.1 billion are presently anticipated for 1993, with the Printing Papers and Packaging businesses in the United States slated to receive approximately 60 percent of the total. Recovered-paper projects will be emphasized.

While a strengthened economy will be reflected positively in our results, we don't intend to rely on that alone. To help keep us in the forefront of our markets, we will expand our ongoing customer service and product improvement programs. We will focus on our customers' needs as a primary means to create value for them and help us differentiate our products.

Our Quality Improvement Process (QIP) calls for a "quality first" attitude among our employees—a high standard of continuous improvement in customer service and satisfaction. New product development is geared toward creating a steady stream of products and services that will enable our customers to secure their own competitive positions. Improved manufacturing, order and tracking systems support sound customer relationships as well. In our Packaging businesses, for example, we are investing in new design concepts that meet customer needs, which may be driven by such diverse factors as environmental concerns or product protection and display considerations. At a time when many of our customers are under pressure to reduce their own costs, we are striving to help them make their operations more profitable and their products more readily accepted in the marketplace.

In recent years, the acquisitions we have made have led the way to new product or geographical market areas. We view acquisitions as a way to help us achieve our growth and profitability goals. They allow us to strengthen our product lines, especially in businesses affected by rapidly changing technology, as well as to expand into new markets. International Paper took a major step to expand its overseas operations with the 1989 acquisition of Aussedat Rey in France. Today, we have a presence in more than 25 countries around the globe. This geographic expansion has given us access to major and growing markets, particularly in Europe, where the market potential is greater than the United States and holds promise for good growth in the future. In 1992, we ventured into Eastern Europe with the acquisition of the Kwidzyn mill in Poland, a large mill and one of the lowest cost producers in Europe.

On the horizon are a number of issues that the industry and our Company must be prepared to confront. Environmental, safety and health regulations and expectations require increasing amounts of our attention and resources. International Paper is deeply committed to its responsibility in these areas and in 1992 formally adopted a comprehensive statement of Environmental, Safety and Health Principles. To this end, we invested $126 million in 1992 to minimize the environmental impact of our processes and products while improving safety in our facilities.

We are proud of our record of improving our overall safety performance by an average of 15 percent per year over the past five years, and we strive to achieve an accident-free workplace for our employees.

We have reduced effluents from our manufacturing processes and directed development efforts to accommodate customer demand for new products containing recycled fibers. A discussion of International Paper's environmental policies, issues and accomplishments can be found on pages 19 through 21 and in the management discussion on page 37 of this Annual Report.

While we recognize that there are many challenges ahead, we also believe that there are many exciting and far-reaching opportunities. We are in businesses that can and do compete successfully with companies all around the world. Over the last decade, we have demonstrated the capability to change and grow while aggressively seeking ways to create value for customers and shareholders. I am very optimistic about the ability of our management team, with the help of our dedicated employees, to build on our solid asset base and capital structure to pursue strategies and businesses that will strengthen our Company during the years ahead.

John A. Georges

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Chairman and Chief Executive Officer

March 1, 1993

International Paper is a worldwide, integrated paper and forest products company augmented by specialty and distribution businesses. The Company serves customers around the world with manufacturing operations in 26 countries and exports to more than 130 countries. More than 70,000 employees contribute to our standing as a world-class company.

Finest
RED ROOSTER
CALIFORNIA'S BEST
California's
AUSSEDAT REY
Pabst
FILTERED
BECKETT CUSTOM-CUT PAPERS
RED RUNNER
DAMPENING SLEEVE
SuperTree Seedlings
Material
nable
AUSTRALIAN FRESH
ORANGE JUICE
Beckett Old Colony
Strathmore
Springhill
hammermill
HAMMERMILL PAPERS
Anitec
ageCorporation
ILFORD
SKETCH
Strathmore
2LBS
ILFORD
27.9 x 35.6cm
11 x 14in
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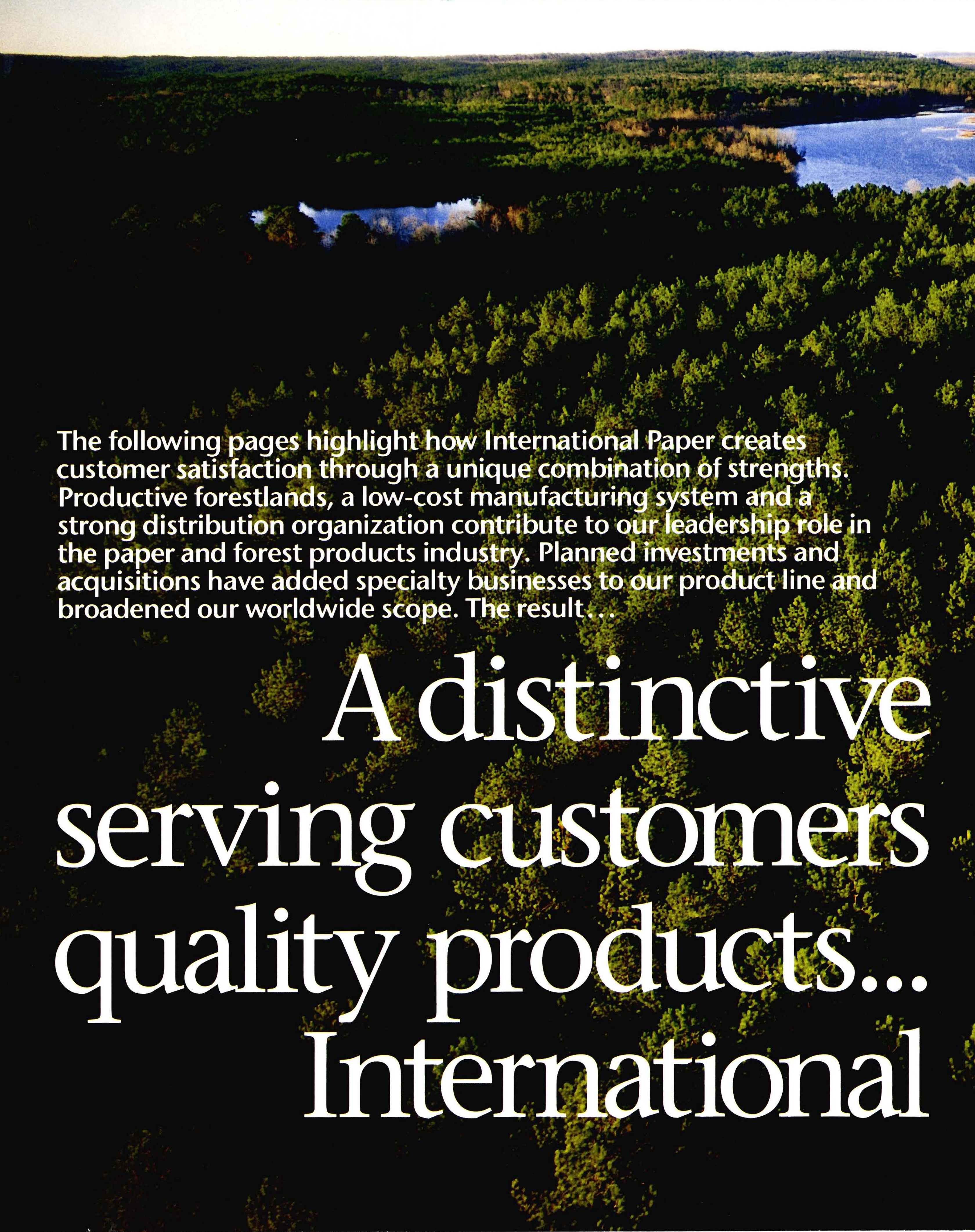
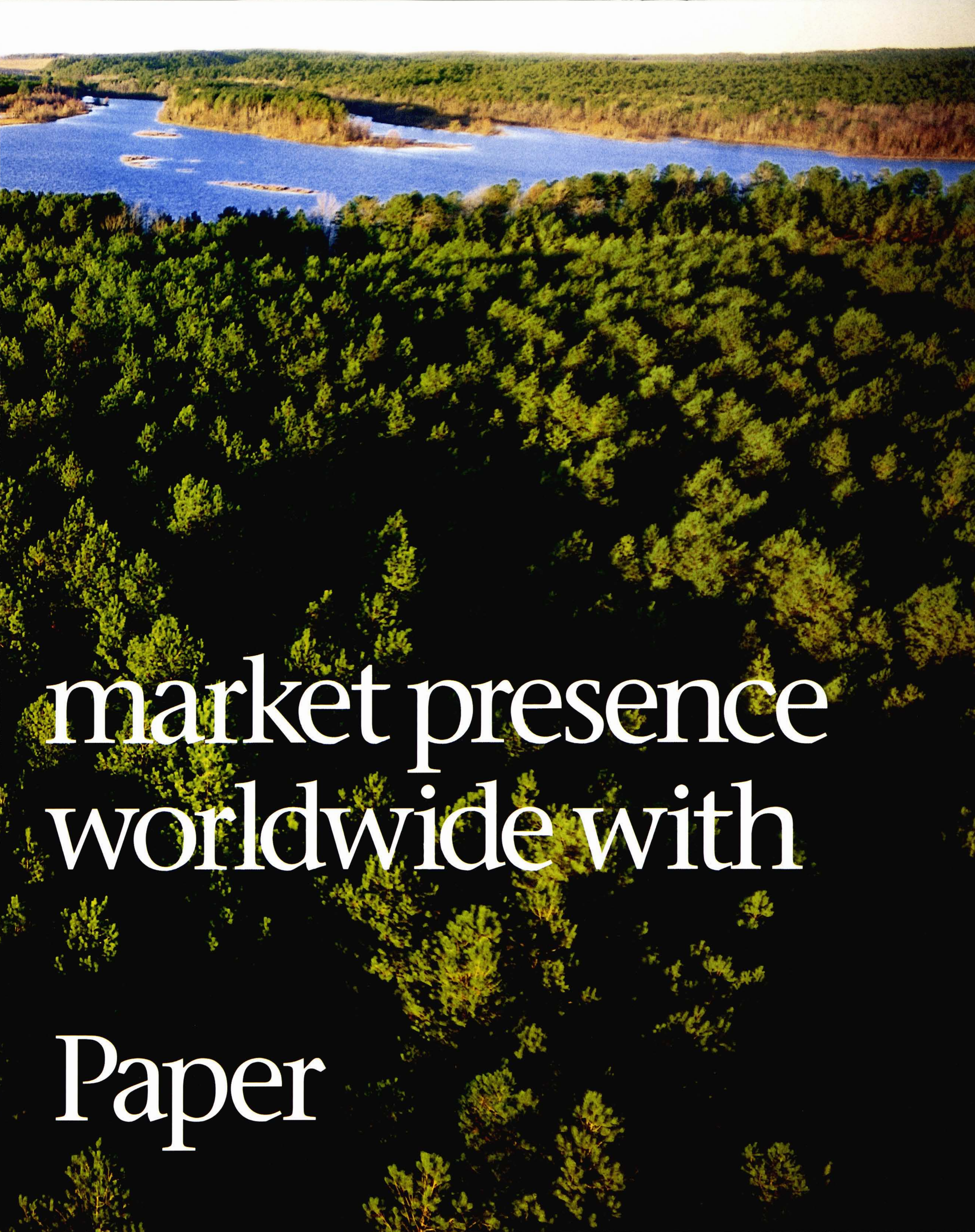
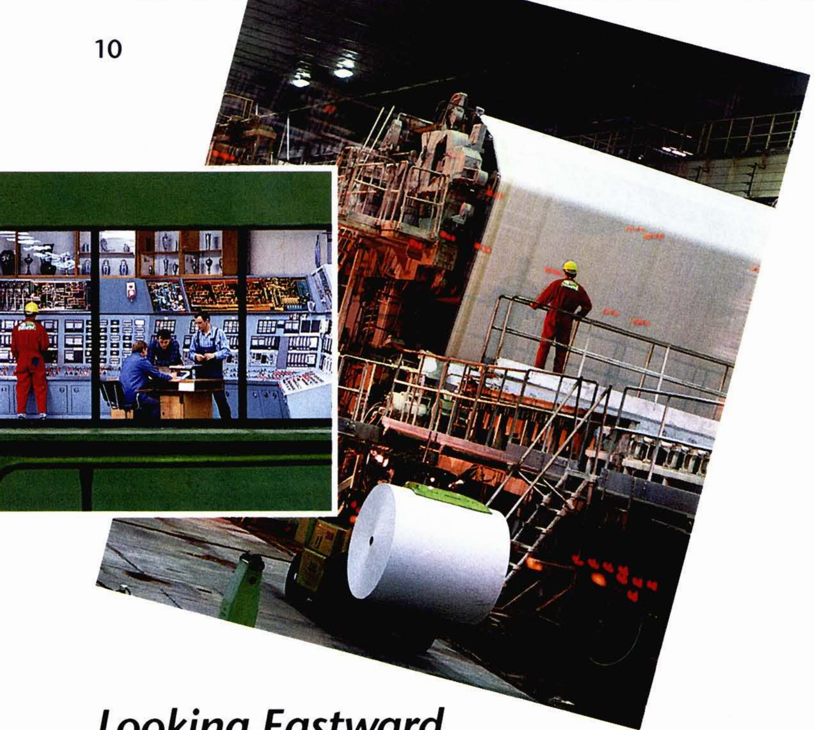
PHOTOGRAPHISCHES PAPIER



The following pages highlight how International Paper creates customer satisfaction through a unique combination of strengths. Productive forestlands, a low-cost manufacturing system and a strong distribution organization contribute to our leadership role in the paper and forest products industry. Planned investments and acquisitions have added specialty businesses to our product line and broadened our worldwide scope. The result...

A distinctive serving customers quality products... International


market presence
worldwide with
Paper



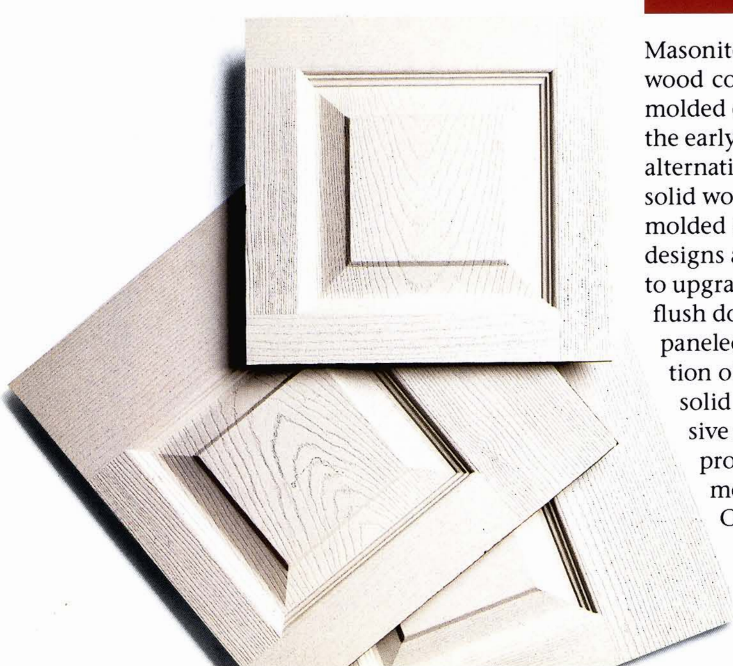
Running Like Number One

In an all-out effort to top the competition, our Springhill Division enhanced its coated cover stock during 1992. Improvements of $26 million were implemented at our Moss Point, Miss., mill, resulting in a vastly improved product. Both sides of Springhill C2S™ are now coated "on machine" for a more uniform and consistent printing surface. Springhill now offers two new C2S™ thicknesses and lower basis weights that provide our customers with better yield and incomparable value.

Looking Eastward

With the purchase of Kwidzyn in August 1992, International Paper invested in one of the most modern paper mills in Eastern Europe. Built in the mid-1980s to Western design specifications, Kwidzyn has the capability to produce uncoated printing and writing papers, market pulp, newsprint and paperboard. It has access to abundant forest resources and is well positioned for both domestic expansion and European export development. Investment in Kwidzyn represents one of the largest capital commitments by an American company since privatization began in Poland.

Opening Doors at Masonite



Masonite began making wood composite molded door facings in the early 1970s as an alternative to expensive solid wood doors. Its molded CraftMaster™ designs allow builders to upgrade from plain flush doors to attractive paneled ones at a fraction of the cost of solid wood. Aggressive marketing and product development have made CraftMaster™ the leader in the molded category. To satisfy increasing demand, capacity has been expanded during the past two years. Worldwide sales continue to grow in both domestic and export markets. In 1993, CraftMaster™ door facings will be offered in larger sizes and new styles that will open up new sales growth opportunities.

Brighter Messages

A team effort by our Fine Papers Division helped provide 3M with bright new colors for its vibrant Post-it™ note cubes. Following the Company's quality improvement process (QIP), task teams from Ward Paper and 3M collaborated to develop the popular fluorescent version of the memo pad with our Bright-hue® paper. QIP teamwork helped deliver the finished product in less than half 3M's normal product development time. As we strive to further improve customer satisfaction, we're sharing our expertise in recognizing emerging color trends with 3M for future products.

Serving the Juice

Since it was introduced in the United States in 1990, the popularity of the SPOUT-PAK® carton has grown worldwide. It is now sold in Canada, Europe, Australia and the Far East. The successful development of this patented system was the result of a team effort by our Liquid Packaging Division, our Evergreen Packaging Equipment subsidiary, and customers such as Tropicana. These partnerships, and our focus on customer needs, provide many opportunities to develop ideas that better serve our customers.

New Developments at Ilford

Ilford has achieved strong market acceptance of its Ilfochrome Rapid™ line of professional color printing products, introduced in late 1991. Ilfochrome Rapid™ papers and chemicals create the fastest quality color image in the world when used on Ilford's Omnipro™ system, the first photo processor capable of making both color and black-and-white prints. Ilford, with a leadership position in professional monochrome systems and color products, has manufacturing facilities in Europe and operates an extensive global sales and service network in 15 countries.


REWARD

Shipping the Harvest

Octagonal boxes constructed of International Paper's specialty lettuce linerboard grades are reshaping the future of agricultural packaging. Customers gain exceptional stacking strength, a patented design permitting efficient setup in the field and high-quality graphics that enhance selling power.

The box has proven successful in the California growing region and recently has been introduced in other areas. Agricultural shipments account for approximately 13 percent of all Container Division sales in the United States and 20-25 percent in Europe.

We're Part of the Fabric

We're now an exclusive supplier of dissolving pulp for Tencel®, an innovative new Courtaulds fiber used in upscale apparel by such designers as Perry Ellis, Calvin Klein and Carole Little. Tencel®, manufactured through an environmentally friendly process, has the appeal of cotton, wool or silk and the strength of a synthetic. The unique quality of our pulp fits the exacting process and quality requirements of this special fiber. As demand for these new fibers increases, we're positioned to grow with this market. A 300,000-ton specialty business, dissolving pulp is also used to produce acetate and viscose fibers and films.

Up and Running at Zanders

With the midyear 1992 start-up of Zanders' paper machine PM3 at its mill in Bergisch Gladbach, Germany, Zanders' position as a world leader for superior fine papers was enhanced. The machine's design optimizes production of high-quality base papers for the ikono™, Chromolux® and Zanders autocopy™ lines. With PM3's annual capacity of 170,000 metric tons, Zanders now has the flexibility to produce base papers for its three key product lines on a single machine.

Scaling New Heights

The 1992 introduction of our new Everest™ bleached board product line of folding carton, liquid packaging and cup stock followed a three-year $500 million mill system modernization. Everest™ products provide an exceptionally high level of smoothness that improves printing performance, scoring, folding and finishing characteristics. International Paper produces over one million tons of bleached board annually and holds a world leadership position with a 15 percent market share.

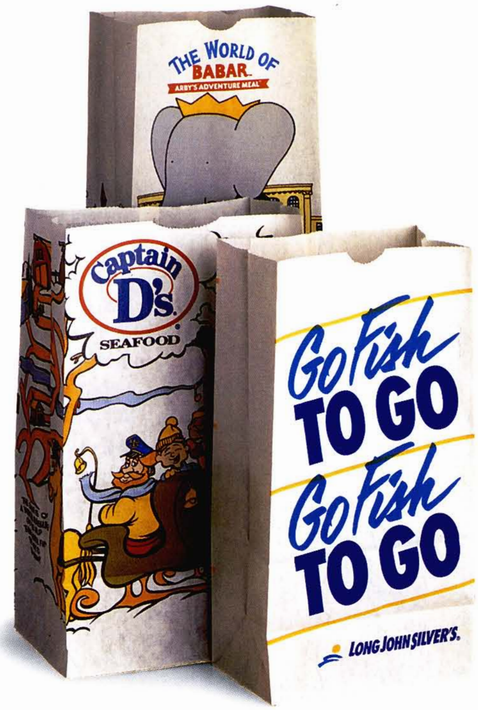
Sticking to the Job

Arizona Chemical processes paper mill byproducts and other raw materials into value-added products for diverse markets ranging from inks and adhesives to paints and chewing gums. Arizona Chemical has aggressively expanded its presence in these markets.

Since 1990, three new production units have been built in Florida and Sweden, dramatically increasing capacity. One of the Company's newest units, located in Panama City, Fla., is featured here. Among other products, Aquatac® tackifier resins and Nirez® solvents are manufactured by Arizona Chemical.

Our Partner in Imaging

In 1992, we invested in Scitex Corporation Ltd., a world leader in the development, production and marketing of electronic imaging equipment for the printing and publishing industries. Scitex has gained a leading worldwide share of the color electronic market by providing leading-edge color electronic prepress systems and superior customer support. The strategic relationship between Scitex and our Imaging Products Division allows us to work together on technology and product development; we are also planning joint marketing and distribution programs.



It's in the Bag

As a prominent player in a growing market, our Kraft Division is the major supplier of bags to more than 20 fast-food chains. Sales to the fast-food market grew 16 percent in 1992, with sales of recycled grades increasing 40 percent. As customer demand for recycled products increases, we are in the forefront of the business by offering a broad range of kraft paper products with up to 100 percent waste fiber.

Pulp à la Française

Aussedat Rey, a major producer of printing and writing papers in France, strengthened its position in the European market with the early 1993 start-up of a low-cost pulp facility at Saillat. The new mill will produce more than 300,000 tons of pulp each year, allowing Saillat to meet its own pulp requirements as well as providing pulp to other mills. The upgraded facility enhances Aussedat Rey's quality control over the papermaking process at Saillat, from raw materials to finished product.

Bristols Take Off

We are a primary supplier of paper to Rand McNally's DocuSystems Group—the leading producer of airline tickets in the world. When the airline industry recently decided to switch to a new type of ticketing technology, together we developed the automated ticket and boarding pass. This new format facilitates automation with a magnetic strip to encode flight and other information. There are approximately 900 million annual boardings worldwide. With an estimated growth of five percent a year, we expect demand for these tickets to continue increasing. Magnetic tickets are also suitable for use in amusement parks, car rentals, and other travel and leisure fields.

We Do It All for Sara Lee

Our wholesale distribution network is made up of many merchant businesses supporting customers on both a local and a national level. In late 1991, Sara Lee's Knit Products Division, Hanes, selected us as their nationwide preferred supplier for paper, packaging and industrial supply products. Linda Wakefield (Sara Lee), Jim Oates and Alec Sharpe (both of Dillard Paper), and Gary Krall (Sara Lee) worked together to forge this relationship. During 1992, AT&T, Digital Equipment Corporation and others became national accounts. With 2,800 salespeople and 250 domestic locations, our Distribution businesses have a competitive advantage in serving customers.

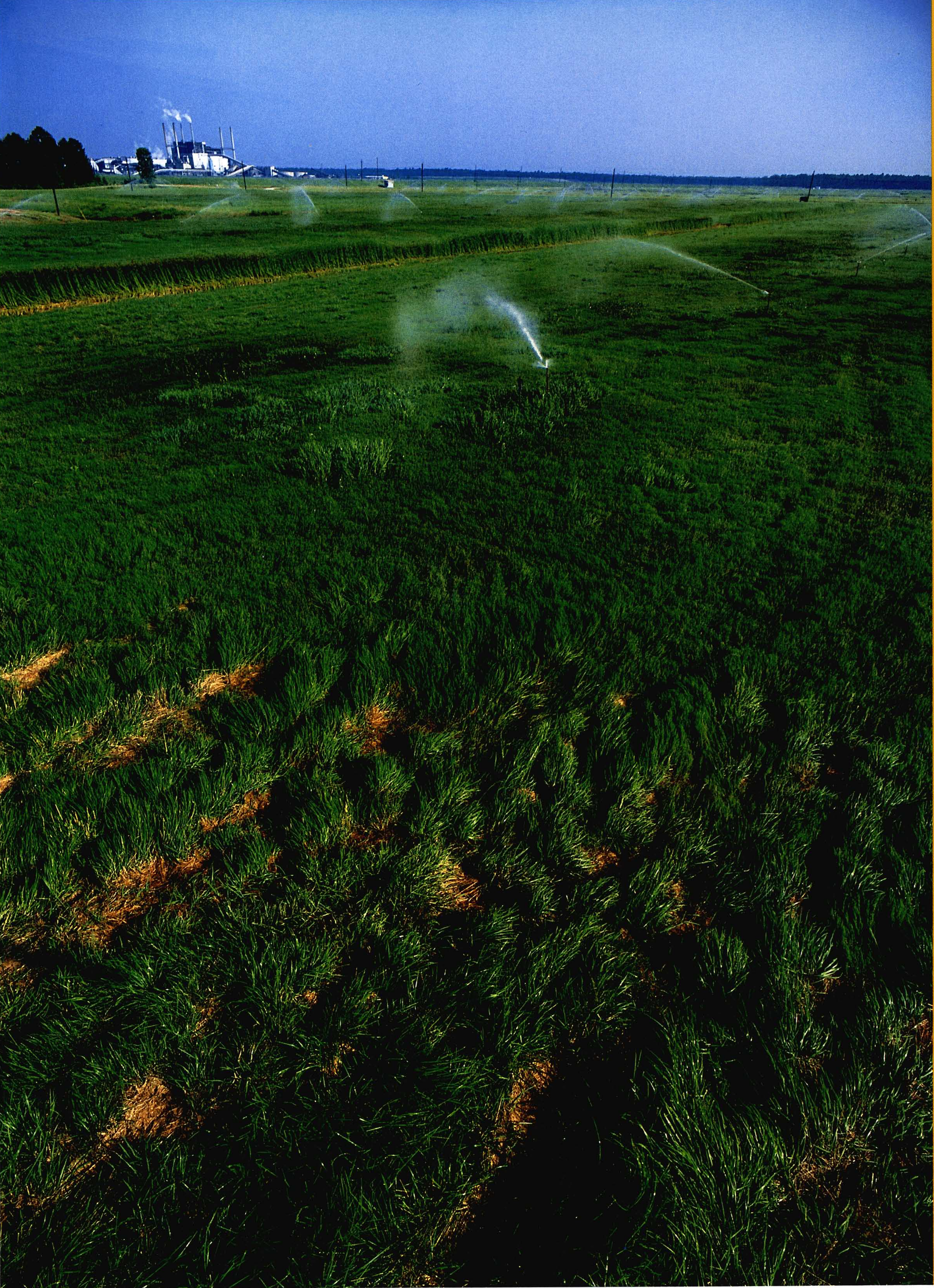
A Legacy in the Adirondacks

In 1992, International Paper donated 20,200 acres in the Adirondack State Park to the State of New York and The Conservation Fund. It is the largest gift in the Park's 100-year history and provides for the preservation of an 11-mile tract of land along the Raquette River, which was cited by conservation groups as one of the top acquisition priorities in the Northeast. Working together, the State of New York and The Conservation Fund will use the river corridor for public recreation while the surrounding land will remain a working forest providing a tax base and jobs for the local community.

What's in a Label?

Recently we introduced Polyweave™, the world's first synthetic label produced on a Fourdrinier paper machine. This unique label is created from the same material as the plastic bottles to which it is applied, making the container easier to recycle. The product was developed by personnel from our Label Division, Veratec and the Lock Haven, Pa., paper mill. With Polyweave™, the Company plans to serve the $60 million annual in-mold label market. This market is expected to grow over 10 percent annually.


Hanes



Environmental Matters

In 1992, the Earth Summit in Rio de Janeiro made front-page news of such issues as global warming and biodiversity. In the United States, the spotted owl controversy was an issue during the political campaign. International Paper's ongoing interest and investment in environmental matters reflect this heightened attention. As a major forestland owner and an international manufacturer, we must respond daily to increasingly stringent environmental expectations. Our objective is to be responsible stewards of environmental and economic interests. In our view, the two are inextricably linked.

Standards of Commitment

International Paper's philosophy concerning environmental performance is made clear to all our employees:

Our standard remains 100 percent compliance with existing regulations, including accurate and timely reporting. Our goal is, within practical limits, to make steady reductions in environmental impact.

Substantial human and capital resources are being directed toward environmental management. Our priorities fall into three categories:

- Managing natural resources responsibly;
- Reducing emissions from manufacturing processes; and
- Recovering paper products that would otherwise go into the solid-waste stream.

Managing Natural Resources

In 1992, International Paper codified its long-standing forestry practices into a set of Principles of Forest Management. Recognizing our dependence on a productive forest system, we continue to invest in the long-term health of the forestland we own and manage.

Our research programs seek to ensure the future of our forests. For example, the analysis and mapping of soil characteristics guide us in the management of our forests. To date, we have mapped more than four million acres. Our genetic research program is producing trees that are stronger and more disease-resistant.

International Paper foresters employ management practices designed for the specific needs of each region—for example, we establish streamside management zones that provide protective corridors of vegetation along waterways to maintain water quality and protect animal life.

Controlled through IP Timberlands, Ltd., our inventory of more than six million acres of land is divided into three broad classes of forests. The first, about 40 percent of our holdings, is given over to intensive production of wood. The second, almost half our land, is managed not only for wood production, but also for recreation and wildlife management purposes. Finally, almost 10 percent is left undisturbed because it has special geological characteristics or contains unique ecosystems. Here we either maintain the land ourselves or work through organizations like The Conservation Fund or the Nature Conservancy to preserve such areas as the Piercefield Tract in the Adirondack Park in New York State.

Conscious of the special environmental need for urban forests, we also took on a leading role in the organization and funding of New York City's Central Park Tree Trust.

International Paper remains strongly committed to stemming efforts to restrict the use and productivity of our forestlands. It is our conviction that sound forestry management provides good jobs in an environmentally responsible manner.

The wastewater treatment system at our Mansfield, La., paper mill balances production with the preservation of natural resources. The system, in operation since 1981, sprays wastewater over a specially engineered 650-acre grassy field. Natural biological reactions occur as the water filters through the plant life of the grassy terraces, making the effluent safe for discharge.

Improving the Manufacturing Process

International Paper's manufacturing operations vary widely in size, function and age, but our goal of reducing the environmental impact of those operations remains constant. That philosophy has been in place for many years. In 1992, to further emphasize our commitment, we adopted the Environmental, Safety and Health Principles proposed by the American Forest and Paper Association. All our facilities are required to assess their performance against these Principles.

They are intended to serve as both a challenge and a mandate for every manager, supervisor and employee of International Paper. In brief, they dictate that environmental, safety and health matters will be:

- made a priority in both existing and planned operations;
- recognized in the development and design of products with regard to their manufacture, distribution and disposal;
- monitored and reported on regularly to the Board of Directors;
- communicated to employees so as to emphasize their responsibilities in this area;
- supported with research and development aimed at improving performance;
- discussed with employees, customers, suppliers, the community, public officials and shareholders to promote better understanding;
- considered in the development of public policies, in which we will participate actively; and
- made a factor in our pursuit of energy conservation and increased energy efficiency.

We also have developed an environmental audit program that began in 1990. This program not only reviews regulatory requirements, but also ensures that management systems are in place to achieve the Company's goal of attaining 100 percent compliance. By the end of 1993, all of our U.S. manufacturing facilities will have undergone at least one corporate audit. Our largest manufacturing operations are subject to an intensive audit every year. This program reinforces environmental self-evaluations by employees who receive intensive training regarding their environmental responsibilities.

By applying management tools to environmental issues, we can improve manufacturing processes. At our Androscoggin, Maine, mill, fiber previously lost to the mill's effluent-treatment system has been cut by 60 percent. Substituting chemicals is another alternative. For example, we are now using water-based coatings in our printing operations. In one such operation we have reduced the emissions of solvents to the atmosphere by more than 15 percent.

In recent years, our efforts toward improving management of the manufacturing process have included the following:

- Voluntarily reducing by half the 1988 level of emissions of certain chemicals in accordance with the Environmental Protection Agency's (EPA) Industrial Toxics Project, well ahead of the 1995 deadline.
- Setting a goal to cut solid waste deposited in landfills by our manufacturing facilities by 50 percent by 1994. Through a combination of methods, 1988 levels have so far been reduced by more than 45 percent.
- Reducing levels of dioxin produced through our manufacturing processes at our 11 U.S. bleached paper mills by more than 95 percent. We now estimate that these mills together discharge less than one ounce of dioxin per year.

Because of the nature and scope of our business and operations, accidental permit exceedances sometimes regrettably occur despite our best efforts. In 1992, International Paper made progress toward resolving several disputes with federal and state environmental agencies. These are discussed in more detail on page 37.

In the fall of 1993, the EPA is expected to issue proposed standards for the paper industry under the Clean Air and Clean Water Acts. We anticipate that there will be a public policy debate regarding the EPA's proposals. We expect to participate in that debate and to urge the EPA to ensure that the final standards are based on sound science, can be complied with using proven, cost-effective technology, and have a demonstrable environmental benefit that is not out of line with the added expense of complying with them.

Products to Meet Customer Demands
Paper and paperboard products are important elements in the ongoing debate about recycling and solid-waste management. The U.S. paper industry, as a whole, is committed to recovering 40 percent of waste paper for reuse or recycling by 1995, and it will exceed that goal.

Recycled products are beginning to occupy a higher profile in the marketplace, and we are making major investments to meet increasing market demands. In 1992, we introduced several products containing recycled fiber, bringing our total of such products to more than 70. Best known are our premium writing grades from Strathmore and Beckett, business papers from Springhill and Hammermill, and kraft paper produced at our Camden, Ark., mill.

During 1993, we will bring on-line new de-inking capacity at three of our plants. One project, in Lock Haven, Pa., will convert magazines and newspapers into business papers. We are also studying investments that would enable us to use significantly more recovered fiber.

We have enjoyed significant success proving the economic viability of milk carton recycling in a project with the Los Angeles School District. In 1993, we will be working to develop a market for recovered paperboard milk and juice cartons in the northeastern United States.

Recycling is but one part of the solid-waste solution. We believe waste-to-energy projects are also important, and we are working as well to take advantage of the potential compost value from our waste paper and paper mill sludges.

Looking to the Future
International Paper recognizes that even with significant commitment of capital and human resources, environmental issues will continue to arise. But we strive to minimize the extent of environmental problems and are continually looking for new solutions to potential ones.

Our participation in the President's Commission on Environmental Quality demonstrated the benefits of working in partnership with academics and environmental groups to focus on issues such as pollution prevention and biological diversity. We intend to continue and expand this kind of effort in the future.

International Paper At a Glance

Business Segment	Principal Products and Markets

Printing Papers

Uncoated Papers
Coated Papers
Bristols
Pulp

Uncoated Papers—U.S.: *Springhill* and *Hammermill* reprographic and printing papers, plus *Springhill* envelope, tablet papers and forms bond. *Strathmore, Beckett* and *Ward* premium printing, writing and artist papers. International: *Aussedat Rey Reymat* and *Reylux* copier papers. *Zanders autocopy* and *Zanders Classic.* **Coated Papers**—U.S.: *Hudson Web, Publication Gloss* and *Adirondack, Saratoga and Miraweb II* publication papers. International: *Zanders ikono* and *Chromolux* premium coated papers, *Aussedat Rey Nepal* and *Aerial* magazine paper. **Bristols**—*Springhill* file folders, tags and posters. **Pulp**—*Supersoft* fluff pulp for diapers and sanitary products, dissolving pulp for rayon and acetate products, and paper pulps.

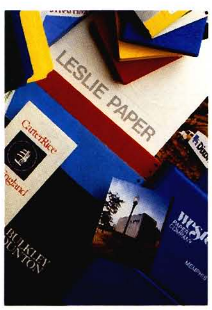
Packaging

Industrial Packaging
Consumer Packaging
Kraft and Specialty Papers

Industrial Packaging—Linerboard and medium for corrugated boxes. Value-added products such as *Pineliner* and *ColorBrite* generate a third of the Division's sales. Forty-one box plants worldwide. **Consumer Packaging**—*Everest* bleached packaging board and packaging for juice, milk, pharmaceuticals, cosmetics, food, cigarettes and chemicals and *Evergreen Packaging Equipment* systems. **Kraft and Specialty Papers**—Kraft packaging for fast-food and grocery bags; multiwall bags for animal feed, pre-mix cement and charcoal. *Akrosil, Nicolet* and *Thilmany* specialty papers for food packaging, consumer and industrial applications.

Distribution

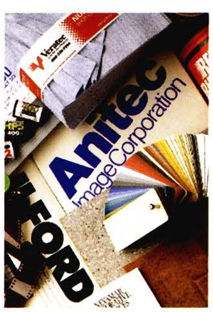
Sales of:
Printing Papers,
Graphic Arts Equipment and Supplies,
Packaging Materials,
Industrial Supplies,
Office Products



With nearly 250 wholesale and retail establishments in 43 states, International Paper distributes paper, graphic arts equipment and supplies, packaging materials, industrial supplies and office products to customers throughout the United States. The products sold are produced by many leading manufacturers, with approximately 20 percent coming from the Company's own facilities. Companies include Carter Rice, Arvey, Western Paper Company, CDA Distributors, Dixon Paper Company, Dillard Paper Company, Industrial Material Distributors and Leslie Paper Company. Overseas, Aussedat Rey sells 40 percent of its products through its distribution network including Scaldia Papier BV.

Specialty Products

Imaging Products
Specialty Panels
Nonwovens
Chemicals
Minerals



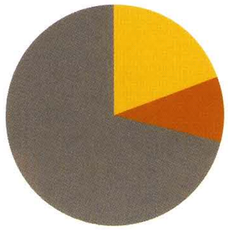
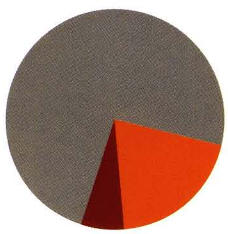
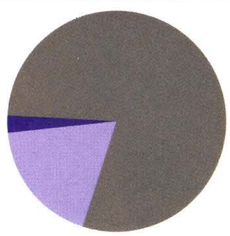
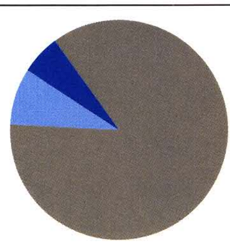
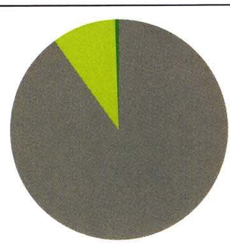
Imaging Products—*Anitec* films, papers and offset printing plates. *Horsell* and *Freundorfer* plates in Europe and *Anchor* pressroom chemistry. *Ilford* monochrome films, papers and processing chemicals and professional color products. **Specialty Panels**—*Fountainhead* and *Vitricor* decorative surfaces, *CraftMaster* molded interior door facings, composite wood siding, furniture components and decorative laminates. **Nonwovens**—*Veratec* natural fibers and nonwoven fabrics used by the disposable diaper, computer and graphic arts industries. **Chemicals**—*Arizona Chemical* processes paper mill by-products into adhesives, inks, paints and chewing gum resins. **Minerals**—Oil and gas exploration and production.

Forest Products

Logs
Wood Products

Forestland Operations—Primarily through majority ownership of IP Timberlands, Ltd. (IPT), a publicly traded limited partnership, International Paper controls 6.2 million acres of U.S. forestlands. Sawlogs and pulpwood from these forests are used in the Company's wood products plants and pulp and paper mills as well as sold to third parties. **Wood Products**—Lumber, plywood, oriented strand board, and treated wood products such as landscape timbers, poles and pilings. *Masonite* traditional and *Colorlok* hardboard siding as well as specialty and interior panel products.

Businesses, product lines and trademarked product names on these pages are italicized.

Percent of Sales		1992 Highlights: U.S.	1992 Highlights: International
29% of Total Sales Sales: $4.0 billion U.S.: 68% Non-U.S.: 32%		Introduced three grades of recycled coated paper and expanded our offering of coated two-side cover grades; withdrew 250,000 tons of high-cost capacity from the uncoated papers market.	Expanded into Eastern Europe through the acquisition of Kwidzyn, a paper mill in Poland; started up a state-of-the-art paper machine at Zanders, enhancing production of premium coated paper; completed the modernization and expansion of the Saillat, France, pulp mill, which started up in early 1993.
26% of Total Sales Sales: $3.6 billion U.S.: 76% Non-U.S.: 24%		The high-quality *Everest* product line, made possible by mill modernizations during the past three years, was successfully introduced; the Liquid Packaging Division opened a new facility in Plant City, Fla.; emphasis continued on productivity enhancements in all businesses.	The Liquid Packaging Division obtained worldwide distribution rights to aseptic filling-machine technology, positioning the business for further expansion; the new Bilbao, Spain, corrugated box plant commenced operations.
21% of Total Sales Sales: $3.0 billion U.S.: 88% Non-U.S.: 12%		Acquired Western Paper Company (Western Pacific), expanding locations to the Pacific Northwest; completed formation of a national management team to coordinate marketing activities among our various companies, to implement a national accounts program and to strengthen relationships with major suppliers.	Aussedat Rey has begun to distribute products from the Company's newly acquired mill in Poland through its sales and distribution system in Western Europe.
14% of Total Sales Sales: $2.1 billion U.S.: 60% Non-U.S.: 40%		The new *Ilfochrome Rapid* color print material was enthusiastically received in the professional market; Masonite brought on new capacity to support its growing door facings business; the Minerals division drilled over 300 wells in Texas; Arizona Chemical introduced several new specialty resins.	Acquired an equity interest in Scitex Corporation Ltd., a strategic complement to our imaging products business; Arizona Chemical acquired the chemical division of Peterson in Norway to service the expanding European market.
10% of Total Sales Sales: $1.4 billion U.S.: 95% Non-U.S.: 5%		Prices reached record levels during the year due to log shortages and strong wood products markets; the Company made opportunistic sales of nonstrategic land and trees, primarily on the West Coast.	Export log sales revenue reached record levels due to strength in Japanese markets; European demand for lumber and plywood was strong.


INTERNATIONAL PAPER
A4
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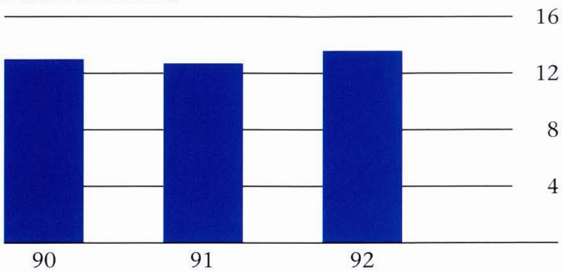
PAPIER COPIEUR
COPIER PAPER
KOPIER PAPIER
BLANCO BLANC WHITE WEISS

Management's Discussion and Analysis

Net Sales

Dollars in billions



Results of Operations

International Paper's 1992 consolidated net sales were $13.6 billion, a 7% increase over 1991 sales of $12.7 billion and 5% higher than 1990 sales of $13.0 billion. Full-year contributions of companies acquired in 1991 were a major factor in the increase.

Sales from operations outside the United States increased to $3.4 billion in 1992 from $3.2 billion in 1991 and $3.0 billion in 1990. Export sales were $1.2 billion in 1992 compared with $1.1 billion in 1991 and 1990.

Profits continued to decrease in 1992 as economic recovery in the United States lagged and European economic conditions worsened. Weak prices in coated and uncoated printing and writing papers led to a significant fall in Printing Papers segment earnings, offsetting the strong performance by Forest Products and lower interest costs. A continuing focus on cost reduction helped minimize the decrease in profits.

Net earnings were $86 million or $.71 per share in 1992 ($405 million or $3.34 per share before the effects of an accounting change, an extraordinary item and a profitability improvement charge), down from $184 million or $1.66 per share in 1991 ($452 million or $4.09 per share before an accounting change and a charge for severance costs) and $569 million or $5.21 per share ($706 million or $6.47 per share before a business improvement charge) in 1990.

Accounting Changes and Extraordinary Item

As of January 1, 1992, International Paper adopted SFAS No. 109, "Accounting for Income Taxes," which prescribes the liability method of determining deferred income taxes. Net earnings were reduced by $50 million or $.41 per share for the cumulative effect of this change. Also, in adopting SFAS No. 109, the Company revised its accounting for prior acquisitions. As a result, 1992 depreciation expense increased by $41 million; however, there was no impact on net earnings because of an offsetting deferred tax benefit.

Also in 1992, the Company took advantage of low interest rates to extinguish high interest debt. Related costs totaling $9 million ($6 million after taxes or $.05 per share) were recorded as an extraordinary item.

The 1991 adoption of SFAS No. 106, requiring the accrual method of accounting for postretirement benefits, reduced 1991 earnings by $231 million or $2.10 per share. Of this, $215 million or $1.95 per share related to the cumulative effect of the accounting change as of the beginning of the year.

Unusual Items

Operating results in 1992 included a $398 million pre-tax productivity improvement charge ($263 million after taxes or $2.17 per share). This special charge was primarily for asset write-downs and related severance costs. It included charges to shift production from older, less efficient facilities to new or modernized plants; costs to consolidate manufacturing, distribution and sales operations to improve productivity and customer service; and write-downs of some facilities with marginal returns.

In 1991, a $60 million pre-tax charge ($37 million after taxes or $.33 per share) was recorded for work force reductions of more than 1,000 positions worldwide.

Results for 1990 included a $212 million pretax charge ($137 million after taxes or $1.26 per share) primarily for the liquidation of certain assets.

The annual pre-tax earnings benefits from these actions should approach $150 million by the end of 1994.

International Paper now offers our popular *International Copier Bond* reprographic paper in the A4 metric size used throughout Europe. Produced at the Bastrop, La., mill, *International Copier Bond* is available through our European subsidiary Aussedat Rey. The paper is warehoused in the Netherlands and the United Kingdom to facilitate customer service.

Printing Papers

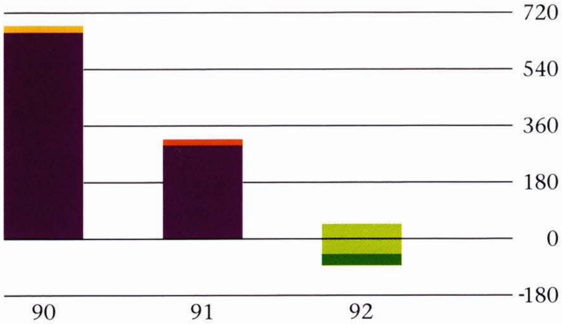
Net sales for Printing Papers were $4.0 billion in 1992, down slightly from $4.1 billion in 1991 and $4.7 billion in 1990. An operating loss of $70 million (a profit of $49 million before unusual items) was recorded in 1992 compared with profits of $298 million ($318 million before unusual items) in 1991 and $657 million ($680 million before unusual items) in 1990.

Soft demand and continued erosion of prices for printing and writing papers throughout 1992 in both U.S. and European markets led to the significant drop in earnings.

Pricing for uncoated paper products began 1993 at the lowest levels of this economic cycle. Prices should improve as the economic recovery gains momentum. Recent actions to eliminate high-cost production and expand recycled-paper products position International Paper to take advantage of this recovery.

Operating Profit

Dollars in millions



- Business improvement charge
- Reduction in force charge
- Productivity improvement charge of $89 million and SFAS No. 109 additional depreciation of $30 million

Uncoated Papers sales, representing over 40% of segment sales, declined 5% in 1992 following a 16% drop in 1991. International Paper supplies 17% of U.S. uncoated paper requirements and has a significant presence in European markets through Aussedat Rey and the newly acquired Kwidzyn operations in Poland.

Sluggish domestic and European economic conditions, newly added industry capacity and the realignment of European exchange rates, including the devaluation of Scandinavian currencies, resulted in a steady decline in prices through the year. By year end, prices in the United States were about $200 per ton below early 1991 levels. Operating profits dropped sharply as this price erosion more than offset the benefits of cost reductions.

During 1992, International Paper withdrew 250,000 tons of high-cost capacity from the uncoated papers market. Costs will be further reduced by the completion in late 1993 of a project to produce 100% recycled grades from postconsumer waste paper at the Lock Haven, Pa., mill. These and other cost-reduction actions will significantly improve International Paper's relative cost position in the industry.

As U.S. economic recovery gains momentum in 1993, growth in demand is expected to accelerate and prices should strengthen as the year progresses. Some further short-term price erosion is expected in Europe. Lower operating costs associated with pulp production at Aussedat Rey's modernized Saillat, France, mill, which began production early in 1993, should improve profitability.

Coated Papers sales, representing about 30% of segment sales, decreased slightly in 1992 following a 14% decline in 1991.

In the United States, soft markets, excess supply and declining prices led to a decrease in earnings early in 1992. Increased midyear magazine advertising combined with seasonal catalog demand to allow some price improvement. However, prices ended the year below early 1992 levels.

In Europe, decreased printing and advertising activity led to softer demand for coated papers. Lower prices and higher depreciation from the start-up of Zanders' new paper machine more than offset lower average purchased pulp costs.

Continued recovery in U.S. advertising expenditures in 1993 should lead to increased demand for coated papers. As no significant industry capacity additions are planned, profits should improve as the year progresses.

Operating results in Europe remained weak in early 1993, reflecting lower economic activity and declining margins on export sales from France and Germany due to exchange rate changes in Europe.

Bristols contributes about 10% of segment sales. Operating profits decreased 37% in 1992 after an 8% decline in 1991. Prices came under pressure during 1992 as competitors shifted capacity to bristols. The lower average prices and an unfavorable product mix led to the lower profits.

Profitability should improve as markets for other paper and packaging grades strengthen.

Market Pulp contributed approximately 14% of segment sales in 1992, 1991 and 1990. Operating profits declined slightly in 1992 after a 50% drop in 1991.

Early in 1992, pulp prices moved up from lows reached in 1991. As the year progressed, increasing producer inventories pressured prices, and currency devaluations in major pulp-producing countries reduced U.S. producers' competitive cost advantage.

The extent and timing of price and profit recovery in 1993 will depend on reductions in supplier inventories, growth in demand and the relative strength of the dollar.

1. *Strathmore* premium writing and artist papers
2. Recycled coated grades introduced in 1992
3. Office products made with bristols
4. Well-known *Springhill* and *Hammermill* brands
5. *Zanders* superior coated papers used worldwide
6. Magazines printed on our coated papers
7. Pulp in a variety of products
8. *Beckett's* recycled papers
9. *Aussedat Rey's* fine writing, printing and reprographic papers

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9


Strathmore
SKETCH
Strathmore BLANK POST CARDS
Strathmore KIDS SERIES
HAPPY
THE HEMMETER COLLECTION
SCHOLASTIC BOOK CLUBS
1992 World Series
NATIONAL GEOGRAPHIC
Springhill
Hammermill Laser Papers
HAMMERMILL PAPERS
Ikon
Chron
700
ZANDERS
Inc.
THE NEW YORKER
Reader's Digest
Seventeen
SKIING
Mademoiselle
SPIRIT!
Beckett Concept
BECKETT PAPER
STOCK PRODUCT CODES
Recycled Papers By Beckett
EUROPA
AUSSEDAT REY
500 A4
REYMAT
REY Jet
REYLUX
REY SPEED
ADAGIO

Packaging

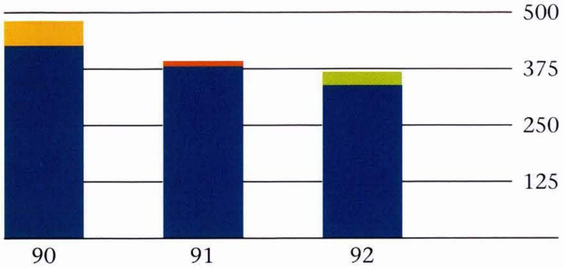
Packaging net sales were $3.6 billion in 1992, up from $3.4 billion in 1991 and $3.5 billion in 1990. Operating profits declined to $338 million ($368 million before unusual items) in 1992 from $380 million ($392 million before unusual items) in 1991 and $426 million ($481 million before unusual items) in 1990.

Lower earnings were mainly due to lackluster demand in consumer and industrial packaging markets and soft pricing as the sluggish global economy restrained market growth.

Emphasis on the development and marketing of value-added, high-visual-appeal products, aggressive cost management and the streamlining of operations will enhance the segment's earnings potential when economic conditions strengthen.

Operating Profit

Dollars in millions



- Business improvement charge
- Reduction in force charge
- Productivity improvement charge

Industrial Packaging contributes nearly 50% of segment sales. Operating profits in 1992 advanced 8%, primarily due to improved domestic manufacturing performance and stronger demand for containerboard.

International Paper's containerboard system, with an annual capacity exceeding two million tons, is one of the industry's lowest cost manufacturers and a leading supplier of corrugated containers to U.S. and European markets. The performance of these businesses is closely tied to the industrial and agricultural sectors of the economies in which they operate.

Despite a high operating rate in 1992, efforts to increase containerboard prices were unsuccessful. Domestic shipments were about equal to 1991 levels, while exports declined slightly due to weak economic conditions in Europe and Asia. Manufacturing costs improved in 1992 as operational efficiencies more than offset higher fiber and energy costs.

Demand for corrugated containers exhibited surprising strength in 1992. U.S. industry shipments increased by about 4.5%, well ahead of the 2.5% average growth of the past 10 years. Intense competition, however, kept prices level with the prior year. The growth in sales of ClassicPak® poultry boxes and specialty-grade industrial containers contributed to operations.

The International Container Division's operating earnings improved slightly despite weak European economies. Volume increased 9%.

Productivity improvements, including the new Bilbao plant in Spain, bolstered operating results.

The coming year should show gradual improvement for these businesses. Containerboard prices are expected to rise early in the year. Cost-reduction programs and further expansion into higher value products will continue to benefit earnings.

Consumer Packaging contributes about one third of segment sales. Operating profits decreased 27% in 1992 after a 15% drop in 1991 as operating rates and prices declined. Also, the Texarkana, Texas, mill experienced a difficult start-up after modernization. These factors contributed to the decrease in earnings.

International Paper produces more than one million tons of bleached board at three U.S. mills. With exports at 20% of production, the Company is the largest U.S. supplier of bleached paperboard to international markets. The segment also includes folding carton and label plants and liquid packaging operations in the United States, Canada, Europe, Latin America and the Far East.

Weakening demand for bleached board coupled with recent industry capacity additions contributed to a drop in operating rates in 1992. Prices for major grades began to decline in late 1991 and dropped an additional 3% during 1992, leading to lower 1992 earnings. Despite these market conditions, the high-quality Everest™ product line, designed to provide quality graphics capability and superior converting characteristics, was successfully introduced early in the year.

Earnings for the liquid packaging businesses also declined in 1992. Domestic sales to the ready-to-serve juice market softened and competition intensified. Overseas operations, however, reported improved performance and increased market share.

Earnings for these businesses should improve in 1993 as the benefits of bleached board mill modernization are realized. Growth is also projected in the liquid packaging businesses.

1. High-quality graphics of *Everest* bleached board
2. Multiwall kraft bags
3. Grease-resistant specialty papers
4. Vivid graphics, a feature of our corrugated boxes
5. Shelf life extended with aseptic packaging
6. Preprinted linerboard, a value-added product
7. Company labels for favorite brands
8. Innovative *QRX* dual-ovenable paperboard
9. Our liquid packaging products sold worldwide

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Tyson
CHICKEN MESQUITE
The Berenstain
IT TALKS!
KEEP FROZEN
FULLY COOKED


KINGSFORD
Shipped from
Industrial Chemicals Div.
Bauxite, Arkansas 72011
USA
ALCOA
ConAgra


Redenbacher's
Light
MICROWAVE
Hungry Jack
10 Flaky Biscuits
Buttermilk
Butter Tastin'
Orville Redenbacher's

4
5
6


California Table Grapes
Nobility
TABLE GRAPES
Produce of U.S.A.
PERLETTE SEEDLESS
RED ROOSTER
CALIFORNIA'S BEST
PRO FARMS
PERISHABLE
Pabst
24 12 FL. OZ. CANS


Hi-C
TOMATE
FRITO
kanda
ORANGE
オレンジジュース
果汁100%
Petit
Néctar de Pera
Cow's Milk
Del Monte
Néctar de
MANZANA
PEAR


Genuine Draft
COLD FILTERED BEER

7
8
9


PROGRESSO SOUP
Tomato Beef
Ocean Spray
Cranapple
LaYogurt
LOWFAT
PUPPY
Del Monte
Quality
FRUIT COCKTAIL
Campbell's
Homestyle
NOURISHMENT AND POWERFUL


INTERNATIONAL PAPER
QPX
BAKERY TRAYS


Sunkist
100%
Tropicana
PURE TROPICS
Minute Maid
100

Distribution

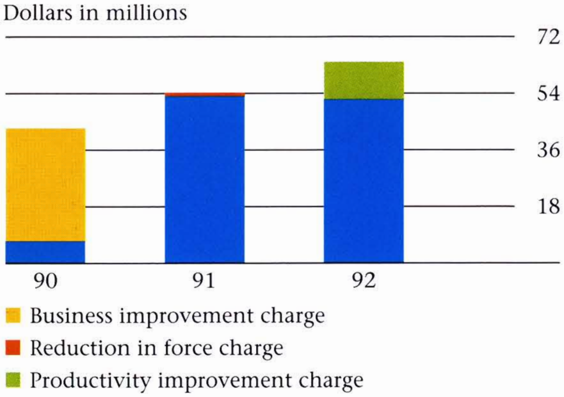
Distribution recorded net sales of $3.0 billion in 1992, up from $2.6 billion in 1991 and $2.5 billion in 1990. Operating profits totaled $52 million ($64 million before unusual items) in 1992 versus $53 million ($54 million before unusual items) in 1991 and $7 million ($43 million before unusual items) in 1990.

A continuing acquisition and integration program, innovative marketing and a profit improvement program helped mitigate the effects of a weak economy in 1992.

The integration of recently acquired regional businesses into a nationwide network and a focus on building strong customer relationships are expected to facilitate sales and growth in 1993.

Operating Profit

Dollars in millions



Distribution provides a link between a variety of consumers and manufacturers of industrial products with more than 150 wholesale and nearly 100 retail facilities competing in 80 regional markets across the United States. International Paper also has a growing presence in Europe through Scaldia and Aussedat Rey. Worldwide, these businesses continue to improve their contribution to International Paper's sales and earnings. In 1992, sales increased 15% to $3.0 billion while operating profits (before a $12 million productivity improvement charge) increased 19%.

Acquisitions, creative marketing and strict cost controls enabled this segment to achieve growth in both sales and earnings despite sluggish economic conditions and a competitive climate with significant price volatility. Full-year contributions from the 1991 acquisition of Dillard Paper Company and merger with Leslie Paper Company led to increased sales despite declining product prices in many paper lines. Strict cost-containment measures also helped to generate higher operating profits before special charges.

The focus of the acquisition program is to establish a nationwide paper, industrial products and graphic arts distribution network. Acquisitions during the past two years have greatly strengthened operations in the Southeast and Midwest and have established a presence in the Pacific Northwest. Moreover, the addition of operations with strong market positions in specific product lines (such as industrial, graphics or products for small printers) has enhanced the market position of existing operations.

U.S. operations were reorganized into geographic regions at the end of 1991 to take advantage of the customer service and cost-saving opportunities provided by companies acquired in the last few years. A new national accounts group was formed to provide nationwide service to large, geographically diverse customers, resulting in the formation of several new key customer partnerships. Also, an integrated information system is presently being developed to allow quicker response to customer orders while minimizing the investment in inventories.

While the outlook is for a continued competitive environment in 1993, Distribution sales and profits are expected to outpace the industry as the benefits of these initiatives are realized.

1. *Bulkley Dunton*, a Northeast supplier of printing papers
2. On-time delivery integral to our success
3. *Dixon Paper*, in the West
4. *Dillard*, in the Southeast
5. *Western Paper*, serving diverse markets
6. New England's *Carter Rice*
7. Our sales force, to ensure customer satisfaction
8. Industrial and janitorial supplies, among our many products
9. A growing network in Europe

1
2
3


BULKLEY
DUNTON


Dillard
PAPER COMPANY
133019
53019


Dixon
Dixon

4
5
6


Dillard


Springhill
Relay DP
western


OnPaper
CarterRice
NewEngland
PRODUCTS
WEB COATED COMPARATOR
This year's annual report is in the bag.

7
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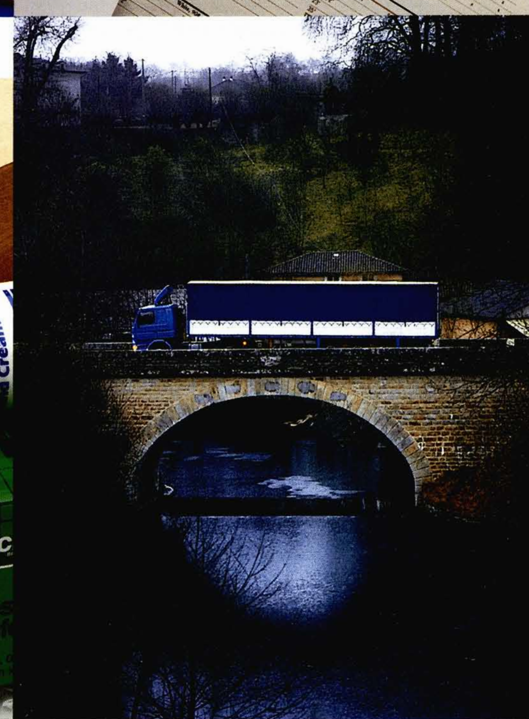
Regency
969



Specialty Products

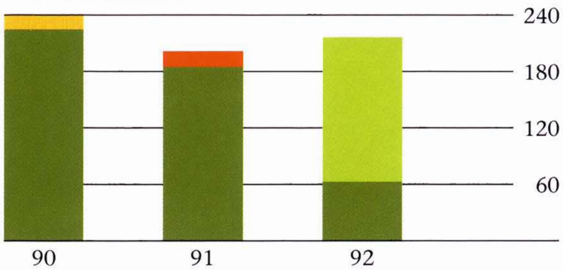
Specialty Products net sales totaled $2.1 billion in 1992, up from $1.9 billion in 1991 and $1.8 billion in 1990. Operating profits were $63 million ($217 million before unusual items) compared with $185 million ($202 million before unusual items) in 1991 and $225 million ($240 million before unusual items) in 1990.

Minerals operations reported higher sales and earnings due to increased oil and gas production and favorable pricing. Strong sales of molded door facings pushed Specialty Panels sales above prior-year levels. Generally weaker pricing reflecting the uncertain U.S. and European economies adversely affected operating results for other businesses in the group.

Improved profitability is expected for this segment in 1993 as a result of increases in market share, new product introductions and operating efficiencies resulting from actions taken in the 1992 productivity improvement program.

Operating Profit

Dollars in millions



- Business improvement charge
- Reduction in force charge
- Productivity improvement charge

Imaging Products sells photosensitive films, papers and printing plates and associated processing equipment and chemicals to the printing and professional photography markets. Imaging Products sales were less than 40% of segment sales in 1992 compared with 42% in 1991 and 33% in 1990. Weak economic conditions depressed prices for virtually all imaging products, particularly in Europe, the Division's largest market, leading to lower sales and operating profits. Market share gains in the offset printing plate and professional photo lab markets were a positive factor. Earnings before a special charge were down slightly from 1991.

A growing presence in commercial printing markets through increased marketing of high-quality black-and-white films and plates, continued emphasis on research and product development, and lower costs from the recent restructuring and integration actions should lead to improved operating results in 1993.

Specialty Panels markets decorative surfaces, composite wood siding, furniture components and CraftMaster™ molded interior door facings in the United States, Europe and Asia. These businesses contributed nearly 30% of segment sales in 1992 and 1990 compared with just over 25% in 1991. Profits before a special charge increased 11% in 1992.

Sales and profits from molded door facings increased in 1992 as a result of continued growth in both market share and market acceptance. Higher marketing costs and weak pricing for Aussedat Rey's Polyrey specialty panels in Europe partially offset this increase.

The outlook for 1993 is for improvement in both sales and profits from continued growth in demand for molded door facings, the introduction of a new line of Nevamar decorative surfaces, increased market penetration in Europe, and higher sales of OmniWood™, a new composite siding product.

Nonwovens, produced by Veratec at manufacturing facilities in the United States, Canada, Europe and Japan, contributes about 15% of segment sales. Veratec's products are sold to the disposable diaper, computer, graphic arts, industrial, personal care and natural fibers industries. Sales in 1992 were slightly higher than in 1991 and 1990. Earnings before a special charge were also slightly higher.

Increased competition from recent industry capacity additions and anticipated lower demand for disposable diaper coverstock are expected to result in slightly lower sales and earnings in 1993. Continued long-term growth is expected from new products currently in development and additional capacity now in the planning stage.

Chemicals and *Minerals* generate just over 15% of annual segment sales. Higher oil and gas production from a major development program in West Texas combined with higher average gas prices to push Minerals sales and profits up over 30% in 1992. Production from wells drilled prior to year end in the West Texas field qualify for a special "tight sands" tax credit, thus increasing net earnings. Chemicals sales were unchanged, but earnings declined slightly as stronger specialty chemical operations were offset by weaker pricing for commodity chemicals.

Expansion of specialty chemical sales in both the United States and Europe, the acquisition of the chemical division of Peterson in Norway at year end, and further increases in oil and gas production should lead to increased sales and profitability in 1993.

1. *Anitec,* a leader in graphic arts supplies
2. *Masonite* solid wood cabinet doors and *Pluswood* laminated panels
3. *Aussedat Rey's Polyrey* laminate surfacing
4. *Nevamar's Fountainhead* and *Vitricor* decorative surfaces
5. Oil drilling on Company land
6. *Ilford's* renowned quality black-and-white film
7. Testing at *Arizona Chemical*
8. *OmniWood* siding introduced in 1992
9. *Veratec* nonwoven products for the printing trade

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Anitec
Image Corporation
REPROTYPE
Anitec REPROTYPE
800
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Anitec


Polyrey

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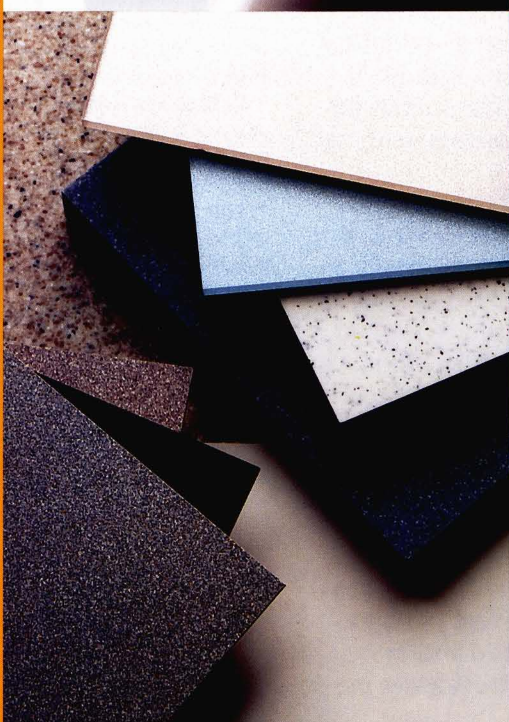


ILFORD
RC DELUXE
MGX.1M
IMP

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Help


PREMIUM
Veratec
Graphic Arts Products
800-338-7956

Forest Products

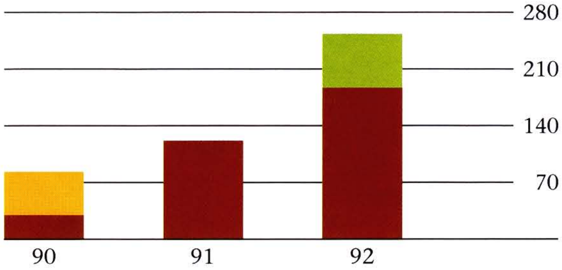
Forest Products, with sales of $1.4 billion in 1992 and $1.2 billion in 1991 and 1990, contributes nearly 10% of consolidated net sales. Operating profits totaled $187 million in 1992 ($254 million before unusual items) compared with $122 million in 1991 and $30 million ($84 million before unusual items) in 1990.

Tight sawlog and pulpwood supplies and strong demand pushed prices higher in 1992, resulting in record profits for Forestland Operations. Wood Products also reported record volumes and earnings, benefiting from increased customer demand in the South, a focus on cost control and the production of higher margin products.

With pricing strong as the year begins, the outlook for both Forestland Operations and Wood Products is favorable for 1993. Increased housing starts and repair and remodeling activity are expected as the U.S. economy recovers.

Operating Profit

Dollars in millions



Business improvement charge
Productivity improvement charge

Forestland Operations include land management, the harvest of sawlogs and pulpwood, and sales of trees and land. Primarily through its majority ownership of IP Timberlands, Ltd. (IPT), International Paper controls approximately 6.2 million acres of forestlands in the United States, mostly in the South. International Paper purchases nearly 30% of IPT's harvest for its manufacturing operations. IPT's total harvest represents about 35% of International Paper's U.S. log and fiber requirements.

Revenues from IPT's harvest and the sales of trees increased 23% in 1992 to $237 million. Continued logging restrictions on federal lands in the West limited log availability and pushed prices to record levels. Unusually wet weather and strong wood products markets enabled pulpwood and sawlog prices to advance in the South. Improved demand from Northeast lumber markets led to higher prices for spruce-fir sawlogs, offsetting lower regional pulpwood prices.

Harvest volumes declined slightly in 1992 due to wet weather conditions, returning to 1990 levels. The high prices enabled IPT to increase sales of nonstrategic forestland and trees in the West. Effective cost-control programs reduced expenses nearly 4% below 1991 levels. Forestland management practices continued to focus on maximizing financial returns while preserving wildlife and water quality and expanding recreational use of forestland.

Harvest volumes are expected to decline in the near future due to lower quantities of mature trees on IPT lands and then increase slightly in the late 1990s. Pricing should show continued strength as housing starts and repair and remodeling activity increase.

Wood Products develops, manufactures and sells high-quality lumber, panel and oriented strand board products at approximately 20 plants in the United States, principally in the South. Over 60% of segment sales arise from these products.

During 1992, wood products production continued to shift from the West to the South. Weather conditions in the South limited log availability, which when combined with a 19% improvement in U.S. housing starts, pushed lumber and panel prices to all-time highs. This price improvement, continuing efforts to lower costs and improve quality, and an increase in production of higher margin specialty products led to record 1992 earnings for these businesses, before a special charge.

Current favorable pricing, an increasing focus on production in the South, and a projected modest rise in U.S. housing starts to 1.3 million units are expected to lead to another strong year for these businesses in 1993.

1. International Paper's southern pine lumber
2. Pine seedlings at a Company nursery
3. Oriented strand board and plywood
4. Hardwood logging in the Northeast
5. *Woodruf* and *Colorlok* roofing and siding
6. Family recreation on Company land
7. *Stylcraft* decorative softboard panels
8. Wildlife habitats protected through careful management practices
9. Genetically superior *SuperTree* seedlings

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SPIB No. 1

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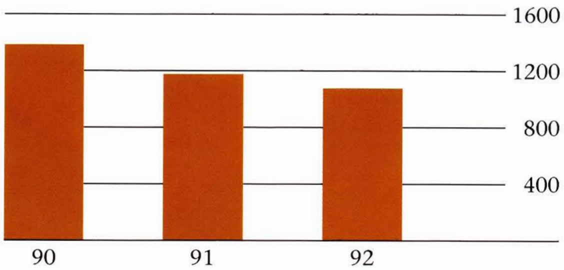
SuperTree Seedlings
INTERNATIONAL PAPER
NURSERIES & ORCHARDS

Liquidity and Capital Resources

Cash Flow From Operations

Dollars in millions



Despite lower earnings, International Paper continued to generate substantial cash flow in 1992. Cash provided by operations of $1.1 billion in 1992 was comparable to the $1.2 billion in 1991, but below the $1.4 billion generated in 1990. An increase in depreciation and amortization charges in 1992 to $850 million from $725 million in 1991 and $667 million in 1990 and higher 1992 noncash charges mitigated the effect of lower net earnings.

Investment Activities

Capital spending of $1.4 billion in 1992 was slightly above the $1.2 billion and $1.3 billion spent in 1991 and 1990. Spending in 1992 included acceleration of an oil and gas development program to qualify for a special tax credit. Spending in recent years has been largely focused on further reduction of production costs, plant upgrades and incremental capacity expansion, quality and productivity improvements, and environmental and safety programs. Major expansion projects were also undertaken in Europe.

In July, Zanders' new paper machine started up, significantly increasing the production of high-quality base papers and reducing production costs. The modernized, expanded pulp mill at Aussedat Rey's Saillat mill began production ahead of schedule in early 1993, nearly doubling the capacity to produce pulp for paper production.

Capital spending for 1993 is expected to approximate $1.1 billion. Major projects will focus mainly on U.S. printing papers and packaging facilities. A recycled-fiber project currently under way at the Lock Haven, Pa., mill, to produce 100% recycled-paper grades from postconsumer newspapers and magazines, is scheduled for start-up in late 1993. The design of a new, low-cost uncoated paper machine at the Riverdale mill in Selma, Ala., is nearly complete, with a final decision expected in 1993 for possible start-up in 1995. Engineering studies are also in process to add a machine to produce recycled containerboard at the Mansfield, La., mill.

Capital Expenditures by Industry Segment

In millions for the years ended December 31	**1992**	1991	1990
Printing Papers	**$ 740**	$ 604	$ 500
Packaging	**227**	284	397
Distribution	**14**	14	26
Specialty Products	**219**	135	233
Forest Products	**104**	115	76
	1,304	1,152	1,232
Corporate	**64**	45	35
Consolidated Total	**$1,368**	$1,197	$1,267

In 1992, $153 million was spent and $30 million accrued, principally for the acquisitions of Kwidzyn in Poland and Western Pacific in Oregon. Kwidzyn, a modern low-cost producer, is the only integrated bleached pulp and paper company in Poland. It is well positioned to service growing European markets. Capital investments totaling $175 million are planned over the next four years to increase output, reduce costs and improve product quality. Western Pacific strengthens paper distribution operations in the Pacific Northwest. The Company also spent $209 million to acquire an 11% equity interest in Scitex, a world leader in color electronic prepress systems.

In 1991, $457 million was spent and $50 million of debt assumed to acquire the Rhone Valley Packaging business, Evergreen Packaging Equipment, Dillard Paper Company and Scaldia Papier BV. A merger with Leslie Paper Company and the formation of a joint venture to control Carter Holt Harvey Limited were also completed in 1991. In 1990, Dixon Paper Company, Nevamar Corporation and the Horsell graphic arts businesses were acquired for $147 million and the assumption of $284 million of debt.

Financing Activities

In January 1992, 9.2 million shares of common stock were sold in a public offering yielding $650 million, and $200 million of 7⅝% notes due in 2007 were issued. These proceeds were mainly used to retire higher rate debt outstanding at that time.

Taking advantage of favorable short-term interest rates, the Company increased short-term borrowings by $657 million in 1992 while decreasing long-term debt by $255 million. This resulted in a current ratio of .96 in 1992. Refinancing of some portion of this debt in 1993 is expected, extending maturities at fixed rates.

Borrowings were $994 million in 1991, principally used to finance acquisitions and large capital projects, compared with $333 million in 1990.

Common stock dividends per share were $.42 per quarter ($1.68 on an annual basis) in 1992, 1991 and 1990. Payments were $206 million in 1992, $186 million in 1991 and $183 million in 1990.

Capital Resource Outlook for 1993

Cash flow from operations is expected to be adequate to meet internal capital expenditures, working capital and dividend requirements. A strong balance sheet supporting an investment-grade debt rating allows ready access to financial markets to take advantage of external investment and favorable financing opportunities.

Other Financial Statement Items

Net interest expense decreased to $247 million in 1992 from $315 million in 1991 and $277 million in 1990 due to lower average interest rates and interest received or accrued on prior-year tax settlements.

The effective tax rate for 1992 declined to 31% of pre-tax income compared with 37% in 1991 and 40% in 1990. The adoption of SFAS No. 109 and the tax benefit at statutory rates of the productivity improvement charge resulted in 1992's lower rate. The Company's effective tax rate is expected to increase in 1993. In the future, International Paper, like many other corporations with large deferred tax liabilities, would report significantly higher annual income tax expense if the federal government increases corporate tax rates. Every percentage point increase in the U.S. statutory rate would result in a $25 million increase in the Company's tax provision in the year of the change to revalue deferred tax balances.

Environmental Issues

Because International Paper is an integrated paper and forest products company, its businesses are closely linked with the environment. Increasingly complex and changing environmental laws and regulations have led to higher capital spending to meet or exceed air, water and solid-waste disposal standards. Environmental capital expenditures totaled $126 million in 1992, $107 million in 1991 and $169 million in 1990. Future expenditures will depend on regulatory and technological developments, including finalization of revised standards under the Clean Air and Clean Water Acts, but are expected to exceed current levels.

In October 1992, agreement was reached with the State of New York concluding an investigation of the Company's Anitec facility in Binghamton, N.Y. Under the agreement, the Company agreed to pay approximately $1.9 million for a civil penalty, reimbursement of state expenses, and a community emergency planning contribution. In addition, the Company agreed to develop and implement best management plans and a chemical accident prevention plan, to reduce certain chemical emissions and upgrade underground process pipelines, and to implement a remediation plan to clean up suspected soil and groundwater contamination. Estimated costs of remediation were accrued in 1992.

In May 1992, the Environmental Protection Agency issued an order alleging that Masonite failed to obtain a permit required for operation of a production line added in 1989 to its Ukiah, Calif., facility. Two additional lawsuits related to the facility were filed by state and county officials alleging noncompliance with certain aspects of state law and late filing of a required emissions plan. Settlement discussions are currently under way concerning all of the Ukiah litigation. The lawsuits are not expected to have a material adverse effect on the Company's future financial condition.

Reviews are also under way at certain other Company facilities to determine if all permits required under federal and state environmental laws have been obtained. Any fines arising from these investigations are not expected to have a material adverse effect on the Company's future financial condition.

Beginning in late 1990, several lawsuits were filed against paper producers alleging property damage, business loss or risk of personal injury resulting from the presence of dioxin in mill discharges. International Paper was named in a number of these lawsuits, although no International Paper case has yet gone to trial. Due to aggressive solicitations by plaintiffs' attorneys, cumulative damage claims totaled more than $9 billion by the end of 1992, principally in punitive damages. Management believes these suits are without merit and expects to prevail upon final resolution.

International Paper is also a party to a number of other environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act. Related costs are recorded in the financial statements when significant and reasonably estimable. Although these costs have increased in recent years, completion of these actions is not expected to have a material adverse effect on the Company's future financial condition.

Further details with respect to these cases can be found in the Company's quarterly reports on Form 10-Q and annual report on Form 10-K filed with the Securities and Exchange Commission. Copies can be obtained as indicated on page 58 of this Annual Report.

Effects of Inflation

General inflation has had minimal impact on International Paper's operating results in the last three years. Sales prices and volumes are more strongly influenced by supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

Financial Information by Geographic Area

Net Sales

In millions	1992	1991	1990
United States[1]	**$10,524**	$ 9,811	$10,119
Europe	**3,030**	2,833	2,730
Other	**347**	318	314
Less: Intergeographic Sales	**(303)**	(259)	(203)
Net Sales	**$13,598**	$12,703	$12,960

Assets

In millions	1992	1991	1990
United States	**$10,680**	$10,207	$ 9,430
Europe	**3,832**	3,153	2,946
Other[2]	**812**	518	279
Corporate	**1,135**	1,063	1,014
Assets	**$16,459**	$14,941	$13,669

[1] Export sales to unaffiliated customers (in millions) were $1,200 in 1992 and $1,100 in 1991 and 1990.
[2] Includes investments in Carter Holt Harvey Limited (1992 and 1991) and Scitex Corporation Ltd. (1992).

Operating Profit

In millions	1992	1991	1990
United States	**$511**	$ 871	$1,139
Europe[3,4]	**41**	143	177
Other	**18**	24	29
Operating Profit	**$570**[5]	$1,038[6]	$1,345[7]

[3] Includes amounts, net of goodwill amortization, for Aussedat Rey, Ilford, Zanders, the Horsell graphic arts businesses, the Rhone Valley Packaging business, Scaldia Papier BV and Kwidzyn from the dates of acquisition. See Note 3 on page 47.
[4] While net sales includes 100% of Zanders' sales, operating profit is adjusted for minority interests.
[5] Includes a $341 million productivity improvement charge and $41 million of SFAS No. 109 additional depreciation.
[6] Includes a $50 million reduction in force charge.
[7] Includes a $183 million business improvement charge.

Net sales of International Paper's operations in Europe increased 7% in 1992 to $3.0 billion, about 22% of consolidated sales. Operating profits declined $102 million because of lower prices for printing and writing papers and the effects of weakening economies.

Aussedat Rey and Zanders continue to provide a strong European presence in the manufacture and distribution of high-quality coated, reprographic and specialty papers. In 1992, Kwidzyn, a Polish manufacturer of pulp and paper with low operating costs and ready access to abundant forest resources, was added.

International Paper also has highly successful containerboard-converting operations in France, Italy, Spain and England. Ilford's imaging business holds a significant share of the world market in professional photographic papers and films, while Horsell produces printing plates for the graphic arts market. The Company's chemicals and nonwovens businesses also have manufacturing and sales operations in Europe.

European Sales by Business Segment

In millions	1992	1991	1990
Printing Papers	**$1,172**	$1,150	$1,255
Packaging	**687**	590	451
Distribution	**362**	282	318
Specialty Products	**779**	784	673
Forest Products	**30**	27	33
European Sales	**$3,030**	$2,833	$2,730

Equity Investments (unaudited)

International Paper is a partner in a 50:50 joint venture that holds 32% of Carter Holt Harvey Limited (CHH), a New Zealand-based forest products company with substantial assets in Chile. CHH has annual sales of about $1.3 billion. For the six months ended September 30, 1992, CHH reported a 12% increase in profits to about $58 million despite a strike (since settled) and a highly competitive marketplace. Actions under way to reduce debt and dispose of noncore assets will help CHH take full advantage of growth markets in the Pacific Rim.

Early in 1992, the Company acquired an 11% interest in Scitex Corporation Ltd., a world leader in color electronic prepress systems for the graphic design, printing and publishing industries. Scitex, with 1992 annual revenues of $550 million, is based in Israel, with most of its sales to European, North American and Japanese customers. For the year ended December 31, 1992, Scitex reported a 22% increase in net income to $122 million. Focused research and development, aggressive marketing and strong cost control point to continued long-term growth for Scitex.

Financial Information by Industry Segment

Net Sales

In millions	1992	1991	1990
Printing Papers	$ 4,040	$ 4,075	$ 4,665
Packaging	3,635	3,420	3,460
Distribution	2,980	2,590	2,485
Specialty Products	2,060	1,945	1,765
Forest Products	1,420	1,190	1,160
Less: Intersegment Sales	(537)	(517)	(575)
Net Sales	$13,598	$12,703	$12,960

Assets

In millions	1992	1991	1990
Printing Papers	$ 6,566	$ 5,448	$ 4,943
Packaging	3,424	3,450	3,212
Distribution	1,062	1,008	820
Specialty Products	2,251	1,973	2,024
Forest Products	1,522	1,741	1,656
Investment in:			
Carter Holt Harvey	285	258	
Scitex	214		
Corporate[1]	1,135	1,063	1,014
Assets	$16,459	$14,941	$13,669

Operating Profit (Loss)

In millions	1992	1991	1990
Printing Papers	$ (70)	$ 298	$ 657
Packaging	338	380	426
Distribution	52	53	7
Specialty Products	63	185	225
Forest Products	187	122	30
Operating Profit	570	1,038	1,345
Interest Expense, net	(247)	(315)	(277)
Corporate Items, net	(117)	(85)	(122)
Earnings Before Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Changes	$ 206	$ 638	$ 946

Depreciation, Depletion and Amortization

In millions	1992	1991	1990
Printing Papers	$392	$328	$318
Packaging	231	211	189
Distribution	30	20	22
Specialty Products	131	108	70
Forest Products	66	77	94
Corporate	14	11	11
Depreciation, Depletion and Amortization	$864[2]	$755	$704

[1]Corporate assets are principally cash and temporary investments, investments and other assets that are not identifiable with industry segments.
[2]Increased by $41 million of additional depreciation related to the adoption of SFAS No. 109.

Industry Segment Contributions

Earnings before income taxes, extraordinary item and cumulative effect of accounting changes in 1992 were $206 million ($645 million before the $398 million productivity improvement charge and $41 million SFAS No. 109 additional depreciation), $638 million ($698 million before the reduction in force charge) in 1991 and $946 million ($1,158 million before the business improvement charge) in 1990. A discussion of operating results by business segment is included in Management's Discussion and Analysis on pages 25-38. The following table portrays 1992, 1991 and 1990 industry segment contributions:

	Operating Profit Before Unusual Items			Unusual Items			Operating Profit (Loss)		
In millions	1992	1991	1990	1992	1991	1990	1992	1991	1990
Printing Papers	$ 49	$ 318	$ 680	$119	$20	$ 23	$ (70)	$ 298	$ 657
Packaging	368	392	481	30	12	55	338	380	426
Distribution	64	54	43	12	1	36	52	53	7
Specialty Products	217	202	240	154	17	15	63	185	225
Forest Products	254	122	84	67		54	187	122	30
Operating Profit	952	1,088	1,528	382	50	183	570	1,038	1,345
Interest Expense, net	(247)	(315)	(277)				(247)	(315)	(277)
Corporate Items, net	(60)	(75)	(93)	57	10	29	(117)	(85)	(122)
Earnings Before Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Changes	$ 645	$ 698	$1,158	$439	$60	$212	$ 206	$ 638	$ 946

Report of Management on Financial Statements

The management of International Paper Company is responsible for the fair presentation of the information contained in the financial statements in this Annual Report. The statements are prepared in accordance with generally accepted accounting principles and reflect management's best judgment as to the Company's financial position, results of operations and cash flows.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are properly recorded and summarized so that reliable financial records and reports can be prepared and assets safeguarded.

An important part of the internal controls system is the Company's Policy on Ethical Business Conduct, which requires employees to maintain the highest ethical and legal standards in their conduct of Company business. The internal controls system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout the Company, and an extensive program of internal audits with management follow-up.

The independent public accountants provide an objective, independent review of management's discharge of its responsibility for the fairness of the Company's financial statements. They review the Company's internal accounting controls and conduct tests of procedures and accounting records to enable them to form the opinion set forth in their report.

The Board of Directors monitors management's administration of the Company's financial and accounting policies and practices, and the preparation of these financial statements. The Audit Committee, which consists of five nonemployee directors, meets regularly with representatives of management, the independent public accountants and the internal Auditor to review their activities. At the Annual Meeting, the Audit Committee presents a summary of its findings to the shareholders and recommends that the shareholders approve the appointment of the independent public accountants to conduct the annual audit.

The independent public accountants and the internal Auditor both have free access to the Audit Committee and meet regularly with the Audit Committee, with and without management representatives in attendance.

Robert C. Butler
Senior Vice President and Chief Financial Officer

Report of Independent Public Accountants

To the Shareholders of International Paper Company:

We have audited the accompanying consolidated balance sheets of International Paper Company (a New York corporation) and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of earnings, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 1992. 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 financial position of International Paper Company and subsidiaries as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

As explained in Notes 5 and 11 to the financial statements, effective January 1, 1992, the Company changed its method of accounting for income taxes, and effective January 1, 1991 changed its method of accounting for postretirement health care and life insurance benefits.

Arthur Andersen & Co.

New York, N.Y.
February 5, 1993

Consolidated Statement of Earnings

In millions, except per share amounts For the years ended December 31	1992	1991	1990
Net Sales	**$13,598**	$12,703	$12,960
Costs and Expenses			
Cost of products sold	**10,137**	9,316	9,263
Depreciation and amortization	**850**	725	667
Distribution expenses	**629**	569	528
Selling and administrative expenses	**981**	945	934
Taxes other than payroll and income taxes	**150**	135	133
Productivity improvement charge	**398**		
Reduction in force charge		60	
Business improvement charge			212
Total Costs and Expenses	**13,145**	11,750	11,737
Earnings Before Interest, Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Changes	**453**	953	1,223
Interest expense, net	**247**	315	277
Earnings Before Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Changes	**206**	638	946
Provision for income taxes	**64**	239	377
Earnings Before Extraordinary Item and Cumulative Effect of Accounting Changes	**142**	399	569
Extraordinary item—loss on extinguishment of debt (less tax benefit of $3)—Note 8	**(6)**		
Cumulative effect of change in accounting for income taxes—Note 5	**(50)**		
Cumulative effect of change in accounting for postretirement benefits (less deferred tax benefit of $135)—Note 11		(215)	
Net Earnings	**$ 86**	$ 184	$ 569
Earnings per Common Share			
Earnings before extraordinary item and cumulative effect of accounting changes	**$ 1.17**	$ 3.61	$ 5.21
Extraordinary item—loss on extinguishment of debt—Note 8	**(.05)**		
Cumulative effect of change in accounting for income taxes—Note 5	**(.41)**		
Cumulative effect of change in accounting for postretirement benefits—Note 11		(1.95)	
Earnings per Common Share	**$ .71**	$ 1.66	$ 5.21

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

Consolidated Balance Sheet

In millions at December 31	1992	1991
Assets		
Current Assets		
Cash and temporary investments, at cost, which approximates market	$ 225	$ 238
Accounts and notes receivable, less allowances of $91 in 1992 and $74 in 1991	1,861	1,841
Inventories	1,938	1,780
Other current assets	342	272
Total Current Assets	4,366	4,131
Plants, Properties and Equipment, Net	8,884	7,848
Forestlands	759	743
Investments	599	383
Goodwill	772	816
Deferred Charges and Other Assets	1,079	1,020
Total Assets	$16,459	$14,941
Liabilities and Common Shareholders' Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 2,356	$ 1,699
Accounts payable	1,259	1,110
Accrued payroll and benefits	173	216
Accrued income taxes	104	102
Other accrued liabilities	639	600
Total Current Liabilities	4,531	3,727
Long-Term Debt	3,096	3,351
Deferred Income Taxes	1,417	1,044
Minority Interest and Other Liabilities	1,226	1,080
Commitments and Contingent Liabilities		
Common Shareholders' Equity		
Common stock, $1 par value; issued 1992—127.0 shares, 1991—117.6 shares	127	118
Paid-in capital	1,792	1,264
Retained earnings	4,472	4,592
	6,391	5,974
Less: Common stock held in treasury, at cost; 1992—4.3 shares, 1991—5.1 shares	202	235
Total Common Shareholders' Equity	6,189	5,739
Total Liabilities and Common Shareholders' Equity	$16,459	$14,941

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

Consolidated Statement of Cash Flows

In millions for the years ended December 31	**1992**	1991	1990
Operating Activities			
Net earnings	**$ 86**	$ 184	$ 569
Cumulative effect of accounting changes	**50**	215	
Noncash items			
Productivity improvement charge	**398**		
Reduction in force charge		60	
Business improvement charge			212
Depreciation and amortization	**850**	725	667
Deferred income taxes	**(99)**	30	38
Other, net	**(95)**	45	20
Changes in current assets and liabilities			
Accounts and notes receivable	**2**	79	(59)
Inventories	**(127)**	(74)	(55)
Accounts payable and accrued liabilities	**(2)**	(122)	(9)
Other	**15**	35	2
Cash Provided by Operations	**1,078**	1,177	1,385
Investment Activities			
Invested in capital projects	**(1,368)**	(1,197)	(1,267)
Mergers and acquisitions			
Plants, properties and equipment	**(163)**	(131)	(142)
Goodwill	**(13)**	(211)	(81)
Other assets and liabilities, net	**23**	(115)	76
Investments in affiliated companies	**(247)**	(258)	
Other investment	**(104)**	(56)	3
Cash Used for Investment Activities	**(1,872)**	(1,968)	(1,411)
Financing Activities			
Issuance of common stock	**703**	45	40
Issuance of debt	**1,852**	1,583	967
Reduction of debt	**(1,458)**	(589)	(634)
Dividends paid	**(206)**	(186)	(183)
Other financing	**(102)**	(76)	(27)
Cash Provided by Financing Activities	**789**	777	163
Effect of Exchange Rate Changes on Cash	**(8)**	(4)	17
Change in Cash and Temporary Investments	**(13)**	(18)	154
Cash and Temporary Investments			
Beginning of the year	**238**	256	102
End of the year	**$ 225**	$ 238	$ 256

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

Consolidated Statement of Common Shareholders' Equity

In millions, except share amounts in thousands	Common Stock Issued Shares	Common Stock Issued Amount	Paid-In Capital[1]	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Common Shareholders' Equity
Balance, January 1, 1990	116,988	$117	$1,161	$4,195	8,276	$326	$5,147
Issuance of stock for various plans	315		37		(682)	(17)	54
Cash dividends—Common stock ($1.68 per share)				(183)			(183)
Foreign currency translation (less tax benefit of $23)			45				45
Net earnings				569			569
Balance, December 31, 1990	117,303	117	1,243	4,581	7,594	309	5,632
Conversion of subordinated debentures			33		(1,244)	(43)	76
Issuance of stock for merger			(7)	13	(512)	(13)	19
Issuance of stock for various plans	275	1	39		(714)	(18)	58
Cash dividends—Common stock ($1.68 per share)				(186)			(186)
Foreign currency translation (less tax benefit of $10)			(44)				(44)
Net earnings				184			184
Balance, December 31, 1991	117,578	118	1,264	4,592	5,124	235	5,739
Issuance of stock in a public offering	**9,200**	**9**	**641**				**650**
Issuance of stock for various plans	**215**		**27**		**(793)**	**(33)**	**60**
Cash dividends—Common stock ($1.68 per share)				**(206)**			**(206)**
Foreign currency translation (less tax benefit of $58)			**(140)**				**(140)**
Net earnings				**86**			**86**
Balance, December 31, 1992	**126,993**	**$127**	**$1,792**	**$4,472**	**4,331**	**$202**	**$6,189**

[1]The cumulative foreign currency translation adjustment was $(152) million, $(12) million and $32 million at December 31, 1992, 1991 and 1990, respectively.

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

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Consolidation
The consolidated financial statements include the accounts of International Paper Company and its subsidiaries (the Company). Minority interest represents minority shareholders' proportionate share of the equity in several of the Company's consolidated subsidiaries, primarily IP Timberlands, Ltd. (IPT) and Zanders Feinpapiere AG. All significant intercompany balances and transactions are eliminated. Investments in affiliated companies owned 20% or more, and the Company's investments in Carter Holt Harvey Limited and Scitex Corporation Ltd. where the Company has the ability to exercise significant influence, are accounted for by the equity method. The Company's share of affiliates' earnings is included in the consolidated statement of earnings.

Temporary Investments
Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost.

Inventories
Inventory values include all costs directly associated with making the products: materials, labor and manufacturing overhead. These values are presented at cost or at market if it is lower. Costs of raw materials and pulp and paper products are generally determined on the last-in, first-out method. Other inventories are primarily stated using the first-in, first-out or average-cost method.

Plants, Properties and Equipment
Plants, properties and equipment are stated at cost, less accumulated depreciation. For financial reporting purposes, the Company uses the units-of-production method for depreciating its major U.S. pulp and paper mills and certain wood products facilities, and the straight-line method for other plants and equipment. Annual straight-line depreciation rates are buildings, 2½% to 8%, and machinery and equipment, 5% to 33%. For tax purposes, depreciation is computed utilizing accelerated methods.

Start-up costs on major projects are capitalized and amortized over a five-year period. Unamortized start-up costs were $112 million, $75 million and $58 million at December 31, 1992, 1991 and 1990, respectively.

Interest costs for the construction of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs of $42 million in 1992, $36 million in 1991 and $26 million in 1990. Interest payments made during 1992, 1991 and 1990 were $363 million, $385 million and $365 million, respectively.

Forestlands
The Company, which currently owns 84% and 100% of IPT's Class A and Class B Units, respectively, controlled approximately 6.2 million acres of forestlands in the United States at December 31, 1992. Forestlands are stated at cost, less accumulated depletion representing the cost of timber harvested. Forestlands include owned property as well as certain timber harvesting rights with terms of one or more years. Costs attributable to timber are charged against income as trees are cut. The depletion rate charged is determined annually based on the relationship of remaining costs to estimated recoverable volume.

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 included as cumulative translation adjustments in paid-in capital. Gains and losses resulting from foreign currency transactions are included in earnings.

The Company has entered into ongoing currency exchange transactions to hedge a portion of its net investment in overseas operations. At December 31, 1992, contracts totaling approximately $1.8 billion in various currencies were outstanding. Gains and losses resulting from these transactions are determined monthly based on published exchange rates and are included with the related cumulative translation adjustments in paid-in capital.

Amortization of Intangible Assets
Goodwill, the cost in excess of assigned value of businesses acquired, is amortized over 40 years. Accumulated amortization was $77 million and $55 million at December 31, 1992 and 1991, respectively.

Revenue Recognition
The Company generally recognizes revenues when goods are shipped.

Earnings per Common Share
Earnings per common share were computed on the basis of the following average number of shares outstanding (in millions): 1992–121.4; 1991–110.5; 1990–109.2. The effect of all dilutive securities is immaterial.

Reclassifications
Certain reclassifications have been made to prior-year amounts to conform with the current-year presentation.

Note 2. Industry Segment Information

Financial information by industry segment and geographic area for 1992-1990 is presented on pages 36, 39 and 40.

Note 3. Mergers and Acquisitions

During the first quarter of 1992, the operating assets of Western Paper Company (Western Pacific), a printing and industrial distribution business based in Portland, Ore., were purchased. In the second quarter, the Company acquired an 11% equity interest in Scitex Corporation Ltd. (Scitex), an Israel-based world leader in color electronic prepress systems for the graphic design, printing and publishing industries. In the third quarter, Zaklady Celulozowa-Papiernicze S.A. w Kwidzynie (Kwidzyn) was acquired from the Government of the Republic of Poland. Kwidzyn is Poland's largest white papers manufacturer and only integrated bleached pulp and paper company. In the fourth quarter, certain assets of the chemical division of M. Peterson & Son AS (Peterson) were acquired.

During the first quarter of 1991, the Company purchased certain packaging and sheeting facilities located in France previously owned by Georgia-Pacific Corporation (the Rhone Valley Packaging business). In April, the packaging equipment division of United Dominion Industries Ltd. (Evergreen Packaging Equipment) was purchased. Also in April, the Company acquired the common stock of Dillard Paper Company, a domestic wholesale distributor of printing and industrial papers, packaging equipment and supplies. In August, the Company completed a merger with Leslie Paper Company, a paper distribution firm headquartered in Minneapolis, Minn. In November, the Company entered into an agreement with Brierley Investments Limited to control 32% of Carter Holt Harvey Limited, a major New Zealand forest products and paper company. In December, the common stock of Scaldia Papier BV, a paper distribution company based in Nijmegen, Netherlands, was purchased.

Late in the first quarter of 1990, the Company purchased the net assets of Dixon Paper Company, a distributor of fine papers, graphic arts supplies and industrial paper products. In the second quarter, the common stock of the Nevamar Corporation, a domestic manufacturer of laminates and solid-surface materials for countertops, was acquired. In December, the Company purchased the common stock of the Horsell graphic arts businesses, global suppliers of lithographic printing plates, pressroom chemicals and plate processing equipment.

All of the 1992, 1991 and 1990 acquisitions, except the merger with Leslie Paper Company, were accounted for using the purchase method. The operating results of these mergers and acquisitions have been included in the consolidated statement of earnings from the dates of acquisition. The consolidated balance sheet as of December 31, 1992 includes a preliminary allocation of the purchase prices for Western Pacific, Kwidzyn and Peterson, which will be finalized in 1993. The effects of these mergers and acquisitions, individually or in the aggregate, were not significant to the Company's consolidated financial statements.

Note 4. Unusual Items

In November 1992, the Company recorded a pre-tax charge of $398 million ($263 million after taxes or $2.17 per share) to establish a productivity improvement reserve. Over 80% of this charge represents asset write-downs for facility closings or realignments and related severance and relocation costs. The balance covers one-time costs of environmental clean-up and remediation and certain legal costs.

In December 1991, the Company recorded a $60 million ($37 million after taxes or $.33 per share) reduction in force charge to cover severance costs associated with the elimination of more than 1,000 positions from its worldwide work force.

In December 1990, the Company completed a review of operations in the context of its ongoing programs to emphasize value-added products in growing markets and improve the efficiency of its facilities. As a result, the Company recorded a pre-tax charge of $212 million ($137 million after taxes or $1.26 per share), principally related to the planned sale or closure of certain wood products and converting facilities, the estimated cost of environmental remediation, and severance and other personnel expenses associated with the business improvement program. The remaining net assets of the facilities being sold or closed are included in other current or long-term assets.

Note 5. Income Taxes

In the fourth quarter of 1992, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), which utilizes the liability method whereby deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities. First-quarter operations were restated to record an after-tax charge of $50 million ($.41 per share) as the cumulative effect of this accounting change as of January 1,

1992. This change also increased 1992 depreciation and amortization expense and decreased the provision for income taxes by approximately $41 million. In addition, plants, properties and equipment and deferred income taxes each increased by approximately $500 million.

The components of earnings before income taxes, extraordinary item and cumulative effect of accounting changes and the provision for income taxes by taxing jurisdiction were:

In millions	**1992**	1991	1990
Earnings			
U.S.	**$134**	$505	$794
Non-U.S.	**72**	133	152
Earnings before income taxes, extraordinary item and cumulative effect of accounting changes	**$206**	$638	$946

In millions	**1992**	1991	1990
Current tax provision			
U.S. federal	**$120**	$151	$248
U.S. state and local	**14**	9	42
Non-U.S.	**29**	49	49
	163	209	339
Deferred tax provision			
U.S. federal	**(79)**	15	14
U.S. state and local	**(17)**	5	7
Non-U.S.	**(3)**	10	17
	(99)	30	38
Provision for income taxes	**$ 64**	$239	$377

The productivity improvement charge and the adoption of SFAS No. 109 were the major components of the 1992 deferred tax benefit.

The Company made income tax payments of $130 million, $247 million and $298 million in 1992, 1991 and 1990, respectively.

A reconciliation of income tax expense using the statutory U.S. income tax rate compared to the Company's actual income tax expense follows:

In millions	**1992**	1991	1990
Earnings before income taxes, extraordinary item and cumulative effect of accounting changes	**$206**	$638	$946
Statutory U.S. income tax rate	**34%**	34%	34%
Tax expense using statutory U.S. income tax rate	**70**	217	322
State and local taxes	**(2)**	9	32
Goodwill	**18**	4	3
Foreign sales corporation benefit	**(6)**	(9)	(17)
Tax credits	**(6)**	(1)	
Other, net	**(10)**	19	37
Provision for income taxes	**$ 64**	$239	$377
Effective income tax rate	**31%**	37%	40%

The net deferred income tax liability as of December 31, 1992 includes the following components:

In millions	
Other current assets	**$ 213**
Noncurrent deferred taxes	**(1,417)**
Total deferred taxes	**$(1,204)**

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 1992 were as follows:

In millions	
Plants, properties and equipment	**$(1,460)**
Prepaid pension costs	**(156)**
Postretirement benefit accruals	**163**
Alternative minimum taxes	**70**
Other	**179**
Total	**$(1,204)**

Deferred taxes are not provided for temporary differences of approximately $440 million representing earnings of non-U.S. subsidiaries that are intended to be permanently reinvested. If these earnings were remitted, the Company believes that U.S. foreign tax credits would eliminate any significant impact on future income tax provisions.

The principal items giving rise to deferred income taxes for periods prior to the adoption of SFAS No. 109 were accelerated depreciation, pension cost funding, tax credit and tax loss carryovers, and accruals for facility closings and severance costs.

Note 6. Commitments and Contingent Liabilities

The Company is involved in various inquiries, administrative proceedings and litigation relating to contracts, sales of property, environmental protection, tax, anti-trust and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has an element of uncertainty, the Company believes that the outcome of any lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position.

Note 7. Supplementary Balance Sheet Information

Inventories by major category were:

In millions at December 31	**1992**	1991
Raw materials	**$ 354**	$ 318
Finished pulp, paper and packaging products	**945**	850
Finished imaging products	**192**	196
Finished lumber and panel products	**82**	74
Operating supplies	**310**	284
Other	**55**	58
Inventories	**$1,938**	$1,780

Total inventories at December 31, 1990 were $1,638 million. Approximately 63% of the Company's total raw materials and finished products inventories were valued using the last-in, first-out method. If the first-in, first-out method had been used, it would have increased total inventory balances by approximately $168 million, $183 million and $185 million at December 31, 1992, 1991 and 1990, respectively.

Plants, properties and equipment by major classification were:

In millions at December 31	1992	1991
Pulp, paper and packaging facilities		
Mills	$10,229	$ 9,194
Packaging plants	919	922
Wood products facilities	1,045	975
Other plants, properties and equipment	2,345	1,642
Gross cost	14,538	12,733
Less: Accumulated depreciation	5,654	4,885
Plants, properties and equipment, net	$ 8,884	$ 7,848

Note 8. Debt and Lines of Credit

A summary of long-term debt follows:

In millions at December 31	1992	1991
9.4% to 9.7% notes—due 1995-2002	$ 400	$ 400
7⅝% notes—due 2007	199	
10⅞% and 10½% notes—due 1993-1995		200
Medium-term notes—due 1993-2006[1]	589	468
9⅜% French franc note—due 1994	94	97
8.85% sinking fund debentures—due 1993-2000		132
5⅛% debentures—due 2012	77	75
5¾% convertible subordinated debentures—due 2002	199	199
Environmental and industrial development bonds[2,3]	750	674
Commercial paper and bank notes[4]	473	718
Capitalized leases	33	31
Other[5]	381	475
Total	3,195[6]	3,469
Less: Current maturities	99	118
Long-term debt	$3,096	$3,351

[1]The weighted average interest rate on these notes was 8.7% in 1992 and 9.0% in 1991.

[2]The weighted average interest rate on these bonds was 6.4% in 1992 and 7.2% in 1991.

[3]Includes $284 million and $266 million of bonds at December 31, 1992 and 1991, respectively, which may be tendered at various dates and/or under certain circumstances.

[4]The average interest rate based on a weighted average of stated month-end rates was 4.2% in 1992 and 6.2% in 1991.

[5]Includes $104 million in 1992 and $179 million in 1991 of French franc borrowings with a weighted average interest rate of 6.6% in 1992 and 9.4% in 1991, and $190 million in 1992 and $162 million in 1991 of deutsche mark borrowings with a weighted average interest rate of 5.1% in 1992 and 6.2% in 1991.

[6]Approximates fair value based on current market prices.

The 5¾% convertible subordinated debentures are convertible into Company common stock at a conversion price of $68.50 per share. These debentures are redeemable at prices ranging from 103% of principal to par, depending upon the redemption date.

At December 31, 1992 and 1991, the Company classified $760 million and $950 million, respectively, of tenderable bonds and commercial paper as long-term debt. The Company has the intent and ability to renew or convert these obligations through 1993 and into future periods.

Total maturities of long-term debt over the next five years are 1993–$99 million, 1994–$179 million, 1995–$1,076 million, 1996–$237 million and 1997–$118 million. The 1995 amount includes $750 million under a revolving credit agreement that will be rolled over before maturity.

Notes payable at December 31, 1992 included $113 million of deutsche mark-denominated borrowings with a weighted average interest rate of 8.9%, and $106 million of French franc-denominated borrowings with a weighted average interest rate of 10.3%.

At December 31, 1992, the Company had unused bank lines of credit of approximately $1.5 billion. The lines generally provide for interest at market rates plus a margin based on the Company's current bond rating. The principal line, which supports the Company's commercial paper borrowings, provides for $750 million of credit for a minimum three-year period, cancellable only if the Company's bond rating drops below investment grade. A facility fee of .125% to .25% of the line is payable annually.

The Company has entered into certain cross-currency and interest rate swap agreements. Under one series of agreements, the Company will pay 258 million French francs and receive $41 million in March 1993. Interest is payable at 9.55% and receivable based on commercial paper rates upon maturity. A second series provides that in both April 1993 and 1994, the Company will pay 14 million British pounds plus interest at an 11.45% average rate and will receive about $24 million with interest based on commercial paper rates. The risk of loss to the Company for nonperformance by any party to these agreements is not significant.

In 1992, an extraordinary loss of $6 million after taxes ($.05 per share) was recorded for the extinguishment of high-interest-rate debt.

Note 9. Capital Stock

The authorized capital stock of the Company at December 31, 1992 and 1991 consisted of 400,000,000 shares of common stock, $1 par value; 400,000 shares of cumulative $4 nonredeemable preferred stock, without par value (stated value of $100 per share); and 8,750,000 shares of serial preferred stock, $1 par value. The serial preferred stock is issuable in one or more series by the Board of Directors without further shareholder action.

In January 1992, 9.2 million shares of common stock were sold in a public offering. Proceeds of $650 million were used to repay long-term and short-term borrowings.

The Company has stock rights under a Shareholder Rights Plan whereby each share of common stock has one right. Each right entitles shareholders to purchase one common stock share at an exercise price of $155. The rights will become exercisable 10 days after anyone acquires or tenders for 20% or more of the Company's common stock. If, thereafter, anyone acquires 30% or more of the common stock, or a 20% or more owner combines with the Company in a reverse merger in which the Company survives and its common stock is not changed, each right will entitle its holder to purchase Company common stock with a value of twice the $155 exercise price. If, following an acquisition of 20% or more of the common stock, the Company is acquired in a merger or sells 50% of its assets or earnings power, each right will entitle its holder to purchase stock of the acquiring company with a value of twice the $155 exercise price.

Note 10. Retirement Plans

The Company maintains numerous noncontributory pension plans that provide retirement benefits to substantially all employees. Employees generally are eligible to participate in the plans upon commencement of employment and become fully vested after five years of service.

The plans provide defined benefits based on years of credited service and either final average earnings (salaried employees) or hourly job rates or specified benefit rates (hourly and union employees). The Company makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by ERISA.

Net periodic pension income for the Company's qualified and nonqualified defined benefit plans comprised the following:

In millions	**1992**	1991	1990
Service cost—benefits earned during the period	**$ (43)**	$ (40)	$ (38)
Interest cost on projected benefit obligation	**(136)**	(129)	(119)
Actual return on plan assets	**135**	565	(99)
Net amortization and deferrals	**125**	(331)	326
Net periodic pension income	**$ 81**	$ 65	$ 70

The following table presents the funded status of the Company's pension plans and the amounts reflected in the accompanying consolidated balance sheet:

In millions at December 31	**1992**	1991
Actuarial present value of benefit obligations		
Vested benefits	**$1,575**	$1,473
Accumulated benefit obligation	**$1,682**	$1,573
Projected benefit obligation	**$1,828**	$1,723
Plan assets at fair value	**2,523**	2,529
Projected benefit obligation less than plan assets	**695**	806
Unrecognized net gain	**(131)**	(266)
Balance of unrecorded transition asset	**(164)**	(191)
Other	**21**	(3)
Prepaid pension cost in consolidated balance sheet	**$ 421**	$ 346

The actuarial assumptions used in determining net periodic pension costs were:

	1992	1991	1990
Discount rate[1]	**8.0%**	8.5%	8.5%
Expected long-term return on plan assets	**10.0%**	9.5%	9.5%
Weighted average rate of increase in compensation levels	**5.0%**	5.5%	5.5%

[1]At December 31, 1992 and 1991, the discount rate used to determine the benefit obligations was 8.0%.

The decrease in the discount rate, increase in the expected long-term return on plan assets and decrease in the weighted average rate of increase in compensation levels increased 1992 periodic pension income by approximately $9 million.

Plan assets are held primarily in master trust accounts and comprise the following:

In millions at December 31	1992	1991
Temporary investments	$ 108	$ 155
Fixed income securities	628	578
Corporate stocks	1,305	1,281
International Paper common stock	347	368
Income-producing real estate	135	147
Total plan assets	$2,523	$2,529

The Company sponsors several defined contribution plans to provide substantially all U.S. salaried and certain hourly employees of the Company an opportunity to accumulate personal funds for their retirement. Contributions may be made on a before-tax basis to substantially all of these plans.

As determined by the provisions of each plan, the Company matches the employees' voluntary contributions. Company matching contributions to the plans were approximately $30 million, $28 million and $25 million for plan years ending in 1992, 1991 and 1990, respectively. The net assets of these plans approximated $1.1 billion as of the 1992 plan year ends.

Note 11. Postretirement Benefits

The Company provides certain retiree health care and life insurance benefits covering substantially all U.S. salaried and certain hourly employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. A plan amendment in 1992 limits the maximum annual Company contribution for health care benefits for retirees after January 1, 1992 based on age at retirement and years of service after age 50. The Company does not pre-fund these benefits and has the right to modify or terminate certain of these plans in the future.

In the fourth quarter of 1991, the Company adopted the provisions of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," changing to the accrual method of accounting for these benefits effective January 1, 1991. Prior to 1991, postretirement benefit expense was recognized when claims were paid. The Company restated 1991 first-quarter operations to record a pre-tax charge of $350 million ($215 million after taxes or $1.95 per share) as the cumulative effect of an accounting change at that date. This change also increased 1991 pre-tax postretirement benefit expense by $25 million.

Postretirement benefit expense was $12 million, $42 million and $12 million in 1992, 1991 and 1990, respectively. Plan amendments in 1992 decreased expense by approximately $33 million. The components of expense in 1992 and 1991 were as follows:

In millions	1992	1991
Service cost—benefits earned during the period	$ 7	$10
Interest cost on accumulated postretirement benefit obligation	23	32
Net amortization of plan amendments	(18)	
Net postretirement benefit cost	$ 12	$42

The accumulated postretirement benefit obligation, included in minority interest and other liabilities in the accompanying consolidated balance sheet, comprises the following components:

In millions at December 31	1992	1991
Retirees	$209	$201
Fully eligible active plan participants	44	84
Other active plan participants	58	137
Total accumulated postretirement benefit obligation	311	422
Unrecognized net loss	(28)	(17)
Unrecognized effect of plan amendments	115	
Accrued postretirement benefit obligation	$398	$405

Future benefit costs were estimated assuming medical costs would increase at a 15% annual rate starting in 1991, decreasing to a 6% annual growth rate ratably over the next 13 years and then remaining at a 6% annual growth rate thereafter. A 1% increase in this annual trend rate would have increased the accumulated postretirement benefit obligation at December 31, 1992 by $23 million, with an immaterial effect on 1992 postretirement benefit expense. The weighted average discount rate used to estimate the accumulated postretirement benefit obligation was 8.0%.

Note 12. Incentive Plans

In 1989, the shareholders approved a Long-Term Incentive Compensation Plan that includes a Restricted Performance Share Plan, a Stock Option Plan and an Executive Continuity Award Plan, administered by a committee of nonemployee members of the Board of Directors who are not eligible for awards. The plan allows stock appreciation rights to be awarded either separately or in combination with other awards, although none were awarded in 1992, 1991 or 1990.

Under the Restricted Performance Share Plan, contingent awards of Company common stock are granted by the committee. Awards are earned if the Company's financial performance over a five-year period meets or exceeds that of other forest products companies using standards determined by the committee. In 1991 and 1990, 141,000 shares and 206,500 shares, respectively, were earned. The awards for 1992 have not yet been determined.

The Stock Option Plan provides for the granting of incentive stock options and nonqualified stock options to key employees. The committee determines the option price, the number of shares for which an option is granted and the term (which cannot exceed 10 years). The option price is the market price of the stock at the date of grant. Upon exercise of an option, a replacement option may be granted with the exercise price equal to the current market price and with a term extending to the expiration date of the original option. Options awarded under the plan are restricted for a period of four years after the date of grant.

The following summarizes stock option transactions under stock option plans for the three years ended December 31, 1992:

	Shares	Option Price
Balance at 1/1/90	1,791,940	13.851-58.750
Granted	746,100	47.750-58.375
Exercised	(263,676)	13.851-48.250
Balance at 12/31/90	2,274,364	13.930-58.750
Granted	1,077,392	52.875-76.750
Exercised	(657,682)	13.930-63.625
Balance at 12/31/91	2,694,074	13.930-76.750
Granted	**1,091,369**	**60.750-78.000**
Exercised	**(561,634)**	**13.930-70.625**
Balance at 12/31/92	**3,223,809**	**13.930-78.000**

The Executive Continuity Award Plan provides for the granting of tandem awards of restricted stock and nonqualified stock options to key executives. Grants are restricted and awards conditioned on attainment of specified age and years of service requirements. Exercise of the options results in the cancellation of the related restricted shares. Awards of 20,000 restricted shares and 8,000 restricted shares were granted under this plan in 1992 and 1991, respectively, with grants for 20,000 shares forfeited in both 1992 and 1991. No awards were granted in 1990.

At December 31, 1992 and 1991, a total of 4.7 million shares and 5.8 million shares, respectively, were available for grant under incentive plans.

Provisions for awards under the Long-Term Incentive Compensation Plan and all other incentive plans amounted to $29 million, $32 million and $27 million in 1992, 1991 and 1990, respectively. The provisions include charges for recently acquired companies, and adjustments of prior-year awards due to changes in the market price of Company stock and final determination of Restricted Performance Share Plan awards.

Interim Financial Results (unaudited)

In millions, except per share amounts and stock prices	Quarter First	Second	Third	Fourth	Year
1992					
Net Sales	**$3,356**	**$3,386**	**$3,478**	**$3,378**	**$13,598**
Gross Margin[1]	**860**	**873**	**866**	**862**	**3,461**
Earnings (Loss) Before Extraordinary Item and Cumulative Effect of Accounting Change	**104**	**114**	**100**	**(176)[2]**	**142[2]**
Extraordinary Item	**(2)**	**(2)**	**(2)**		**(6)**
Cumulative Effect of Accounting Change	**(50)**				**(50)**
Net Earnings (Loss)	**52**	**112**	**98**	**(176)[2]**	**86[2]**
Per Common Share					
Earnings (Loss) Before Extraordinary Item and Cumulative Effect of Accounting Change	**$ .87**	**$ .94**	**$ .82**	**$(1.46)[2]**	**$ 1.17[2]**
Extraordinary Item	**(.02)**	**(.02)**	**(.01)**		**(.05)**
Cumulative Effect of Accounting Change	**(.41)**				**(.41)**
Earnings (Loss)	**.44**	**.92**	**.81**	**(1.46)[2]**	**.71[2]**
Dividends	**.42**	**.42**	**.42**	**.42**	**1.68**
Stock Price					
High	**78½**	**77**	**70⅜**	**67⅜**	**78½**
Low	**68⅛**	**64½**	**61**	**58½**	**58½**
1991					
Net Sales	$ 3,097	$ 3,114	$ 3,277	$ 3,215	$ 12,703
Gross Margin[1]	855	823	838	871	3,387
Earnings Before Cumulative Effect of Accounting Change	128	100	105	66[3]	399[3,4]
Cumulative Effect of Accounting Change	(215)				(215)
Net Earnings (Loss)	(87)	100	105	66[3]	184[3,4]
Per Common Share					
Earnings Before Cumulative Effect of Accounting Change	$ 1.16	$ .91	$ .95	$ .59[3]	$ 3.61[3,4]
Cumulative Effect of Accounting Change	(1.95)				(1.95)
Earnings (Loss)	(.79)	.91	.95	.59[3]	1.66[3,4]
Dividends	.42	.42	.42	.42	1.68
Stock Price					
High	65⅛	74½	72¾	78¼	78¼
Low	50½	59⅛	62⅛	62⅝	50½

[1] Gross margin represents net sales less cost of products sold.
[2] A $398 million pre-tax productivity improvement charge ($263 million after taxes or $2.17 per share) was recorded in the 1992 fourth quarter.
[3] A $60 million pre-tax reduction in force charge ($37 million after taxes or $.33 per share) was recorded in the 1991 fourth quarter.
[4] Additional expenses related to the adoption of SFAS No. 106 of $25 million ($16 million after taxes or $.15 per share) were recorded in 1991.

Six-Year Financial Summary

Dollar amounts in millions, except per share amounts and stock prices

	1992	1991	1990	1989	1988	1987
Results of Operations						
Net sales	**$13,598**	$12,703	$12,960	$11,378	$9,587	$7,800
Costs and expenses, excluding interest	**13,145**[1]	11,750[2]	11,737[3]	9,768	8,224	6,952
Earnings before income taxes, extraordinary item and cumulative effect of accounting changes	**206**[1]	638[2]	946[3]	1,405	1,198	681
Extraordinary item	**(6)**					
Cumulative effect of accounting changes	**(50)**	(215)				
Net earnings	**86**[1]	184[2]	569[3]	864	754	407
Earnings applicable to common shares	**86**[1]	184[2]	569[3]	845	733	387
Financial Position						
Working capital	**$ (165)**[4]	$ 404	$ 784	$ 366	$ 781	$ 657
Plants, properties and equipment, net	**8,884**	7,848	7,287	6,238	5,456	5,125
Forestlands	**759**	743	751	764	772	780
Total assets	**16,459**	14,941	13,669	11,582	9,462	8,710
Long-term debt	**3,096**	3,351	3,096	2,324	1,853	1,937
Common shareholders' equity	**6,189**	5,739	5,632	5,147	4,557	4,052
Per Share of Common Stock						
Earnings before extraordinary item and cumulative effect of accounting changes	**$ 1.17**[1]	$ 3.61[2]	$ 5.21[3]	$ 7.72	$ 6.57	$ 3.68
Extraordinary item	**(.05)**					
Cumulative effect of accounting changes	**(.41)**	(1.95)				
Net earnings	**.71**[1]	1.66[2]	5.21[3]	7.72	6.57	3.68
Cash dividends	**1.68**	1.68	1.68	1.53	1.28	1.20
Common shareholders' equity	**50.46**	51.03	51.34	47.35	41.14	36.35
Common Stock Prices						
High	**78½**	78¼	58⅜	58¾	49⅜	57¾
Low	**58½**	50½	43½	45⅛	36½	27
Year-end	**66⅝**	70¾	53½	56½	46⅜	42¼
Financial Ratios						
Current ratio	**.96**[4]	1.1	1.2	1.1	1.5	1.4
Total debt to capital ratio	**38.2**	39.1	36.1	33.9	25.8	31.6
Return on equity	**1.4**[1,5]	3.2[2,5]	10.5[3]	17.8	17.0	10.0
Return on capital employed	**1.2**[1,5]	3.5[2,5]	8.0[3]	13.4	13.8	10.2
Capital Expenditures	**$ 1,368**	$ 1,197	$ 1,267	$ 887	$ 645	$ 603
Number of Employees	**73,000**	70,500	69,000	63,500	55,500	45,500

[1]Includes a $398 million pre-tax productivity improvement charge ($263 million after taxes or $2.17 per share).
[2]Includes a $60 million pre-tax reduction in force charge ($37 million after taxes or $.33 per share) and additional expenses related to the adoption of SFAS No. 106 of $25 million ($16 million after taxes or $.15 per share).
[3]Includes a $212 million pre-tax business improvement charge ($137 million after taxes or $1.26 per share).
[4]Reflects increase in short-term versus long-term borrowings due to favorable interest rates.
[5]Return on equity was 6.3% and return on capital employed was 3.7% in 1992 before the accounting change, extraordinary item and productivity improvement charge. Return on equity was 7.8% and return on capital employed was 5.9% in 1991 before the accounting change, reduction in force charge and additional expenses related to the adoption of SFAS No. 106.

Current ratio—current assets divided by current liabilities

Total debt to capital ratio—long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt, deferred income taxes, minority interest and other liabilities, preferred stock and total common shareholders' equity

Return on equity—net earnings divided by average common shareholders' equity (computed monthly)

Return on capital employed—net earnings plus after-tax interest expense and provision for deferred income taxes divided by total assets minus accounts payable and accrued liabilities at the beginning of the year

Directors

Willard C. Butcher[3 4 5]
Former Chairman and Chief Executive Officer
The Chase Manhattan Bank, N.A.

Frederick B. Dent[1 5 6 7]
Chairman
Mayfair Mills, Inc.

John T. Dillon[7]
Executive Vice President
Packaging
International Paper

William M. Ellinghaus[1* 2 3 5]
Former President,
Chief Operating Officer and Director
AT&T

Stanley C. Gault[2 4* 7]
Chairman and Chief Executive Officer
The Goodyear Tire and Rubber Company

John A. Georges[2* 3]
Chairman and Chief Executive Officer
International Paper

Thomas C. Graham[2 4 7*]
President and Chief Executive Officer
Armco Steel Company, L.P.

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William G. Kuhns[1 6]
Former Chairman
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Roger B. Smith[3 6]
Former Chairman and Chief Executive Officer
General Motors Corporation

1 Audit Committee
2 Executive Committee
3 Finance Committee
4 Management Development and Compensation Committee
5 Nominating Committee
6 Public and Legal Affairs Committee
7 Environment, Health and Technology Committee
* Committee Chairperson

Committees of the Board

The Audit Committee† monitors management's accounting and reporting of financial results, the scope and results of internal and external audits, and the adequacy of internal accounting controls. It also recommends the appointment of independent public accountants.

The Executive Committee‡ exercises all of the authority of the Board of Directors that may be lawfully delegated to it. The Executive Committee meets only when the full Board is unavailable and immediate Board action is required.

The Finance Committee‡ reviews both financial position and financing plans, as well as dividend policy and insurance coverages. It also oversees cash flow management policies and practices and monitors the financial performance of capital projects and pension and employee benefit funds.

The Management Development and Compensation Committee† reviews management resources and development programs, authorizes compensation adjustments and succession plans for senior managers, recommends compensation adjustments for directors, and administers the executive bonus incentive compensation and employee retirement and benefit plans.

The Nominating Committee† reviews the size and compensation of the Board and recommends candidates for membership. It also recommends annually the slate of nominees for election by the shareholders.

The Public and Legal Affairs Committee† reviews policies, practices and procedures for complying with legal, regulatory and corporate citizenship obligations, monitors major litigation proceedings and legal problems, and reviews conflict of interest and antitrust policies and programs.

The Environment, Health and Technology Committee‡ reviews environmental, safety, health and technological policies and programs to assure compliance with federal and state laws and regulations and with social responsibility and corporate citizenship goals.

† composed entirely of nonemployee directors
‡ composed of nonemployee directors and one employee director

Senior Management

John A. Georges
Chairman and
Chief Executive Officer

John T. Dillon
Executive Vice President
Packaging

James P. Melican
Executive Vice President
Legal and External Affairs

C. Wesley Smith
Executive Vice President
Printing Papers

Mark A. Suwyn
Executive Vice President
Forest and Specialty Products

Robert C. Butler
Senior Vice President and
Chief Financial Officer

Robert M. Byrnes
Senior Vice President
Human Resources

Victor A. Casebolt
Senior Vice President
Kraft Paper, Board and Packaging

Milan J. Turk
Senior Vice President
Specialty Products

W. Michael Amick
President
International Paper Europe

Robert M. Amen
Vice President
Bleached Board, Folding Carton
and Label

David A. Bailey
President
International Paper Poland

Robert G. Bell
Staff Vice President and Director
Environment, Health and Safety

E. William Boehmler
Vice President and Treasurer

Charles J. Connelly
Auditor

Thomas E. Costello
Vice President, Distribution

William P. Crawford
Staff Vice President and Director
Logistics

J. Alan Day
Vice President
Manufacturing,
Hammermill Papers

John V. Faraci
Vice President and General
Manager, Masonite

John V. Flynn
Staff Vice President and Director
Human Resources

Michael R. Harwood
Vice President and General
Manager, Containerboard
and Kraft

Paul Herbert
Staff Vice President
Engineering

Jeffrey F. Kass
Vice President and General
Manager, Hammermill Papers

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Edward J. Kobacker
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IP Forest Resources Company

Harry G. Lambroussis
Vice President and General
Manager, Imaging Products

Newland A. Lesko
Vice President and General
Manager, Specialty Industrial
Papers

Andrew R. Lessin
Controller

Gerald C. Marterer
Staff Vice President and Director
Quality Management

Jean-Philippe Montel
Chairman and Chief Executive
Officer, Aussedat Rey

Karl W. Moore
Staff Vice President
Information Systems and
Chief Information Officer

Robert A. Moore, Jr.
Vice President and Group
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Richard B. Phillips
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Joseph R. Rimstidt
Vice President and General
Manager, Liquid Packaging

Gerhard H. Seblatnigg
Director, Finance
International Paper Europe

Richard M. Smith
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Manager, Springhill Papers

Paul T. Stecko
Vice President and General
Manager, Coated Papers
and Pulp

W. Dennis Thomas
Vice President
Government Relations

Carol S. Tutundgy
Staff Vice President and Director
Investor Relations

Arthur Wallace
Vice President and Secretary

James A. Wilderotter
Vice President and
General Counsel

Pictured at right are:

1. W. Michael Amick
2. John T. Dillon
3. Robert M. Byrnes
4. Milan J. Turk
5. Mark A. Suwyn
6. Robert C. Butler
7. Victor A. Casebolt
8. C. Wesley Smith
9. James P. Melican

1
2
3

4
5
6

7
8
9

Shareholder Information

Corporate Headquarters
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(914) 397-1500

Annual Meeting
The next annual meeting of shareholders will take place at 9:30 a.m., Tuesday, May 11, 1993 at The Westin Hotel, At Fountain Square, Cincinnati, Ohio. A proxy statement and proxy card will be mailed to each shareholder in late March.

About Your Stock
International Paper common stock is listed on the following stock exchanges: New York, Basel, Geneva, Lausanne, Zurich and Amsterdam. The stock is often quoted as "Intpap" in stock table listings in daily newspapers. International Paper options are traded on the Chicago Board of Options Exchange.

International Paper is one of 30 companies included in the Dow Jones Industrial Average.

Stock Transfer Agent and Registrar
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Under our plan you may invest all or a portion of your dividends, and you may purchase up to $20,000 of additional shares each year. The Company pays all the brokerage commissions and fees. You may also deposit your certificates with the transfer agent for safekeeping. For a copy of the plan's prospectus, call collect 0-914-397-1579 or write to the Corporate Secretary's Office at corporate headquarters.

Investor Relations Program
For questions concerning your stock other than those noted above, call the Investor Relations Department collect 0-914-397-1625.

Reports and Publications
This Annual Report includes most of the financial information required to be included on file with the Securities and Exchange Commission and is incorporated in our Form 10-K.

Quarterly reports containing financial information and other Company news are mailed to shareholders in May, August and November. Form 10-Q reports are also available at these times.

For a copy of any of these reports or to have your name added to our mailing list, call 1-800-332-8146 or write to the Investor Relations Department at corporate headquarters.

To obtain a "Fax On Demand" of current financial data, position statements and basic Company information, call 1-800-851-4FAX. This service is available on a 24-hour basis and is free of charge.

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John McDermott, Gloria Baker, Ovak Arslanian and Steve Kahn
Product Photography
Jim Barber

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