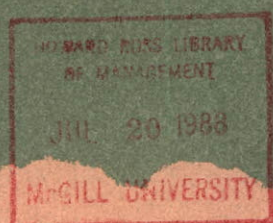


JAMES RIVER
CORPORATION



1987/1988
ANNUAL
REPORT



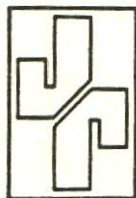


**About
The
Company**

James River Corporation is a major integrated manufacturer of paper, film and plastic products serving the following strategic markets: Hygienics, Communications, Food and Consumer Packaging, Food and Beverage Service and Specialty Industrial and Packaging. Primary products manufactured, converted and marketed by the Company include towel and tissue products, communication papers, folding cartons and flexible packaging materials, food and beverage service items and specialty industrial and packaging papers. The Company also produces synthetic nonwoven fabrics, coated film and market pulp.

During its 19-year history, James River has pursued a well-defined business strategy of internal growth and acquisitions, enabling the Company to significantly expand its business and the diversity of its products while maintaining a consistently growing level of profitability. Today, James River is the world's second largest manufacturer of pulp and paper. The Company has over 34,000 employees in North America and approximately 5,000 employees at its European subsidiaries and affiliates. Its 133 manufacturing facilities, including those of joint venture affiliates, are located in 30 states, as well as in Canada, Mexico and five European countries.

As of June 22, 1988, there were approximately 23,000 common shareholders of record.



JAMES RIVER CORPORATION OF VIRGINIA

Notice of Annual Meeting of Shareholders

TO THE SHAREHOLDERS OF
JAMES RIVER CORPORATION OF VIRGINIA

Notice is hereby given that the 1988 Annual Meeting of Shareholders of James River Corporation of Virginia (the "Company") will be held at the Carpenter Center for the Performing Arts, 600 East Grace Street, Richmond, Virginia, on August 11, 1988, starting at 4:00 p.m.

The purposes for which the meeting is being held are:

1. To elect a Board of Directors consisting of twelve (12) persons to serve for the ensuing year;
2. To approve the designation by the Board of Directors of Coopers & Lybrand as the Company's independent certified public accountants for the fiscal year ending April 30, 1989; and
3. To transact such other business as may properly come before the meeting.

It is important that your shares be represented and voted. Shareholders, whether or not they expect to attend the meeting in person, are requested to date, sign and return the enclosed proxy card in the envelope provided, on which no postage is needed if mailed in the United States.

A copy of the Company's Annual Report to Shareholders for the fiscal year ended April 24, 1988 is being mailed to you with this Notice and the Proxy Statement.

You are cordially invited to attend the meeting. Refreshments will be served immediately afterward.

By order of the Board of Directors,

RICHARD H. CATLETT, JR.
Secretary

July 5, 1988

JAMES RIVER CORPORATION
OF VIRGINIA
P.O. Box 2218

Richmond, Virginia 23217

Proxy Statement

GENERAL INFORMATION

This Proxy Statement, which is being mailed to shareholders on or about July 5, 1988, is furnished in connection with the solicitation by the Board of Directors of James River Corporation of Virginia (the "Company") of proxies in the form accompanying this Proxy Statement for use at the Annual Meeting of Shareholders to be held at 4:00 p.m. on August 11, 1988, at the Carpenter Center for the Performing Arts, 600 East Grace Street, Richmond, Virginia, and any adjournment thereof.

The cost of solicitation of proxies will be borne by the Company. Solicitation will be made initially by mail. However, the directors, officers and employees of the Company and its subsidiaries may, without compensation other than regular compensation, solicit proxies by telephone, telegraph or personal interview.

On June 22, 1988, there were 82,054,327 shares of common stock, par value \$.10 per share, ("Common Stock"), outstanding. Each share of Common Stock is entitled to one vote on each matter presented to the shareholders. Only holders of Common Stock of record at the close of business on June 22, 1988, will be entitled to receive notice of, and to vote at, the meeting and any adjournment thereof. A person giving a proxy may revoke it at any time before it is voted. A proxy, when executed and not revoked, will be voted for the election of the directors nominated and for the proposal set forth in the notice and hereinafter described, except that if the proxy contains any specific instructions, it will be voted in accordance with such instructions.

ELECTION OF DIRECTORS

The Board of Directors consists of twelve members. Each of the directors will stand for re-election for a term which will run until the next annual meeting of shareholders and until his successor has been elected. Each of the nominees listed below has been nominated by management for re-election.

During fiscal 1988, the Board of Directors of the Company met on seven occasions and held one conference by telephone. All members of the Board except Messrs. Bowen and Gottwald attended at least seventy-five percent, in the aggregate, of the meetings of the Board and committees thereof on which they served.

Although the Company anticipates that all of the nominees will be able to serve, if at the time of the meeting any nominees are unable or unwilling to serve, shares represented by properly executed proxies will be voted at the discretion of the persons named therein for such other person or persons as the Board of Directors may designate.

Nominees

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Business Experience and Directorships in Other Public Companies</u>
FitzGerald Bemiss (1)	65	Management consultant, Richmond, Virginia	1972	Retired in December 1986; prior to that time he served as President of FitzGerald & Co., a private investment company. In addition, he serves as a consultant to ARA Services, Inc. Director of Crestar Bank.
W. J. Bowen	66	Chairman of the Board, Transco Energy Company, Houston, Texas (diversified energy company)	1986	Has held present position for more than five years. Retired as Chief Executive Officer of Transco Energy Company in 1988. Director of MCorp, Transco Energy Company and Transco Exploration Company, the managing general partner for Transco Exploration Partners, Ltd. (a limited partnership).
William T. Burgin	44	Partner, Bessemer Venture Partners, Wellesley Hills, Massachusetts	1978	Has held present position for more than five years. Director of Midway Airlines, Inc. and Galileo Electro-Optics Corp.
Richard H. Catlett, Jr. (2)(3)	67	Partner, McGuire, Woods, Battle & Boothe, Richmond, Virginia (attorneys-at-law)	1969	Has held present position for more than five years.
William T. Comfort, Jr.	50	Chairman, Citicorp Venture Capital, Ltd. and Citicorp Capital Investors Ltd., New York, New York (subsidiaries of Citicorp, N.A.)	1978	Has held present position for more than five years. Director of Penn Virginia Company.
William V. Daniel (2)	59	Executive Vice President, WFS Financial Corporation, Richmond, Virginia (investment banking and financial services)	1969	Has held present position with WFS Financial Corporation since 1983. During 1984 he also served as Executive Vice President of Wheat, First Securities, Inc. From 1979-1984, he served as Senior Vice President, Wheat, First Securities, Inc.

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Business Experience and Directorships in Other Public Companies</u>
Bruce C. Gottwald	54	President and Chief Operating Officer, Ethyl Corporation, Richmond, Virginia (chemicals/diversified)	1973	Has held present position for more than five years. Director of Ethyl Corporation, Dominion Resources, Inc. and CSX Corporation.
Brenton S. Halsey (1)	61	Chairman and Chief Executive Officer of the Company	1969	Has held present position for more than five years. Director of Dominion Bankshares, Inc. and Westmoreland Coal Company.
Robert M. O'Neil	53	President, University of Virginia, Charlottesville, Virginia	1987	Has held present position since 1985; prior to that time he served as President of the University of Wisconsin System for the period 1980-1985.
Joseph T. Piemont	65	Management consultant, Charlotte, North Carolina	1975	Has held present position for more than five years. Director of W. A. Krueger Corp., Priam Corp. and Impact Systems Corp.
Robert C. Williams (1)	58	President and Chief Operating Officer of the Company	1969	Has held present position for more than five years. Director of Sovran Financial Corporation.
William S. Woodside	66	Chairman of Sky Chefs Incorporated, Dallas, Texas (airline catering business)	1987	Has held present position since 1987. Retired from Primerica Corporation in 1988; prior to that time he served as Chairman and Chief Executive Officer of Primerica Corporation. Director of Primerica Corporation, Onex Packaging Inc., and Funds advised by American Capital Asset Management.

(1) Member of the Executive Committee.

(2) Mr. Daniel's wife is Mr. Catlett's first cousin.

(3) McGuire, Woods, Battle & Boothe acts as general counsel to the Company.

Compensation of Directors

Each director, other than Messrs. Halsey and Williams, receives for services as a director an annual fee of \$22,000 and reimbursement of expenses incurred in connection with attending meetings. In addition, each director, other than Messrs. Halsey and Williams, receives a fee of \$1,000 for attending Board meetings, \$400 for attending Board meetings held by telephone and \$600 for attending committee meetings.

Effective as of May 1, 1983, the Company adopted a plan whereby each director, other than Messrs. Halsey and Williams, could elect to defer not less than \$10,000 of his director's fees in any year for a period of at least four years. The plan was amended as of July 1, 1985 to modify the benefits and to extend the deferral period for participants at that time to a six-year deferral period. Effective July 1, 1987, the Board approved a second amendment which provides an additional four-year deferral period. The plan is administered by a committee whose members may, but need not, be directors and whose members may not be participants in the plan.

The plan provides participating directors with benefits according to schedules set forth in the plan. The minimum benefit that a director will earn is a return of his deferred fees, plus interest at the six-month certificate of deposit rate in effect from time to time. Under the plan, the Company will pay retirement benefits after a participant reaches age 65 and will pay death benefits to the beneficiary of a participant who dies before beginning to receive retirement benefits. Benefits under the plan will be paid over a ten-year period, unless the aforementioned committee directs otherwise.

The Company has invested amounts attributable to the deferred fees in life insurance contracts on the participants' lives. The insurance contracts are owned by the Company. It is anticipated that the proceeds of the insurance contracts will be used to cover the Company's costs of providing the retirement and death benefits under the plan. The plan participants are general creditors of the Company and have no right to any specific assets of the Company.

Committees of Directors

Messrs. Bemiss, Burgin and Gottwald serve on the Audit Committee of which Mr. Bemiss is Chairman. There were three meetings of the Audit Committee during fiscal 1988 and, in addition, its Chairman held discussions with management on several occasions with respect to the business of the committee. The Audit Committee has responsibility for recommending to the Board of Directors the firm of independent auditors to be retained by the Company; reviewing with the Company's independent auditors the scope and results of their audits and their independence with respect thereto; reviewing with the independent auditors and management the Company's accounting and reporting principles, policies and practices; and reviewing the adequacy of the Company's accounting and financial controls.

Messrs. Bemiss, Daniel and Gottwald are members of the Compensation Committee of which Mr. Daniel is Chairman. The Compensation Committee, which met on one occasion in fiscal 1988, has responsibility for reviewing the compensation of the directors and the Company's Chairman and President; reviewing the salaries of the officers of the Company; administering the Company's Incentive Compensation Plan for salaried employees; and administering the Stock Option Plan, the 1987 Stock Option Plan, the Deferred Stock Plan and the Stock Appreciation Rights Plan. None of the members of the Compensation Committee is entitled to participate in any of the Company's employee benefit plans.

The Company has no nominating committee.

Stock Ownership of Directors

The following table lists the number of shares of Common Stock beneficially owned by all directors and by all directors and officers as a group as of June 22, 1988. The directors and officers do not own any shares of preferred stock as of June 22, 1988.

<u>Name</u>	<u>Number of Shares Beneficially Owned (1)</u>	<u>Percent of Class (11)</u>
FitzGerald Bemiss	42,412	*
W. J. Bowen	5,000	*
William T. Burgin	50,000 (2)	*
Richard H. Catlett, Jr.	27,809 (3)	*
William T. Comfort, Jr.	— (4)	—
William V. Daniel	1,254 (5)	*
Bruce C. Gottwald	250,000 (6)	*
Brenton S. Halsey	703,930 (7)	*
Robert M. O'Neil	100	*
Joseph T. Piemont	800	*
Robert C. Williams	536,191 (8)	*
William S. Woodside	1,000 (9)	*
All directors and officers as a group (32 persons)	1,992,948 (10)	2%

* Less than 1% of Class.

(1) Each person individually has sole voting and investment power over all of the shares listed except as set forth below.

(2) Mr. Burgin disclaims any beneficial interest in 3,000 shares held by his wife as custodian for their children.

(3) Includes 2,548 shares held in the Stock Purchase Plan.

(4) Mr. Comfort disclaims any beneficial interest in 2,759,760 shares beneficially owned by Citicorp and its affiliates.

(5) Includes 250 shares held by his wife and children, for which voting and/or investment power is shared. Mr. Daniel disclaims any beneficial interest in any shares which may, from time to time, be owned directly or indirectly by WFS Financial Corporation.

(6) Mr. Gottwald disclaims any beneficial interest in 4,911 shares owned by his children and his wife as custodian for their children.

(7) Includes 29,027 shares that may be acquired within 60 days by the exercise of stock options, 34,671 shares held in the Stock Purchase Plan and 23,140 shares held by his wife, for which voting and/or investment power is shared.

(8) Includes 23,625 shares that may be acquired within 60 days by the exercise of stock options, 25,027 shares held in the Stock Purchase Plan and 20,870 shares held by his wife, for which voting and/or investment power is shared.

(9) Mr. Woodside disclaims any beneficial interest in 1,000 shares held by his wife.

(10) Includes 109,800 shares that may be acquired within 60 days by the exercise of stock options, 151,127 shares held in the Stock Purchase Plan, 5,897 shares held in the James River Corporation of Nevada Salaried Employees Retirement Savings Plan, 100 shares held jointly with wives and 69,181 shares held by wives and children for which voting and/or investment power is shared. Does not include 9,029 shares held by wives and children as to which beneficial ownership is disclaimed.

(11) Any Common Stock not outstanding but which can be acquired through the exercise of options within 60 days by a shareholder named in the table is deemed outstanding for the purpose of computing the percentage of outstanding Common Stock owned by such shareholder but are not deemed outstanding for the purpose of computing the percentage of Common Stock owned by any other shareholder.

PRINCIPAL SHAREHOLDERS

The only shareholder known by the Company to be the beneficial owner of more than five percent of the Common Stock is Sovran Bank, N.A., Twelfth and Main Streets, Richmond, Virginia 23219, in its capacity as Trustee for the Company's Stock Purchase Plan. As of June 22, 1988, it held 6,293,943 shares of Common Stock or 7.7% of the outstanding shares.

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth information regarding cash compensation paid or accrued for the fiscal year ended April 24, 1988 for services in all capacities to the Company and its subsidiaries by each of the five most highly compensated executive officers and by all executive officers as a group.

<u>Name of Individual or Identity of Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation</u>
Brenton S. Halsey	Chairman, Chief Executive Officer and Director	\$ 919,500
Robert C. Williams	President, Chief Operating Officer and Director	786,050
Ronald L. Singer	Senior Vice President, Group Executive	413,038
Judd H. Alexander	Executive Vice President	331,692
David J. McKittrick	Senior Vice President, Group Executive, Chief Financial Officer	331,154
All Executive Officers as a Group (11 persons)		\$4,454,680

Messrs. Halsey and Williams have historically had employment contracts with the Company that provide minimum amounts of salary to be paid during the terms of the contracts. These contracts contain clauses prohibiting them from competing, directly or indirectly, with the Company or its subsidiaries during the terms of the contracts or while they are entitled to receive any payments thereunder. On June 11, 1987, the Board of Directors approved the extension of these employment contracts to June 1992. They provide that Mr. Halsey will receive an annual salary of not less than \$585,000 and Mr. Williams will receive an annual salary of not less than \$500,000. In the event of their death or disability, their salaries will continue to be paid for one year. The contracts further provide that Messrs. Halsey and Williams will each receive, in addition to his benefits under the Company's pension plan, \$12,000 a year for ten years, or an annuity of the equivalent actuarial value, upon his retirement

at or after age 65. In the event of the death of either, prior to the receipt of all benefits to which he is entitled, the remaining benefits will be paid to his wife, if living, or to his estate.

Mr. Alexander will receive certain supplemental retirement benefits in addition to his benefits under the Company's pension plan. In addition to his retirement pay from a previous employer and the amount to which he is entitled under the Company's pension plan, Mr. Alexander will receive from the Company an amount equal to the increase in his retirement benefit that he would have received had he remained with his previous employer from July 5, 1982 to July 31, 1984 reduced by the annual amount of an annuity that could have been purchased with the after-tax retirement benefit received from his previous employer from July 5, 1982 to July 31, 1984.

Two other officers have supplemental retirement benefit agreements which provide for a minimum annual retirement benefit if they retire from employment with the Company in addition to the benefits under the Company's retirement plans. This benefit is based on their ages at their respective retirement dates. One officer's minimum annual benefit increases from \$105,000 at a retirement age of 56 to \$144,000 at a retirement age of 62 or older. The second officer's minimum annual benefit increases from \$69,000 at a retirement age of 55 to \$98,000 at a retirement age of 62 or older. The minimum benefits will be reduced by the annual benefits derived from employer contributions that are payable to each officer under the Company's retirement plans. In the event of the death of either officer during his employment, a survivor annuity providing similar benefits would be paid to his surviving spouse.

EMPLOYEE BENEFIT PLANS

Tax Reduction Act Stock Ownership Plan

In 1978, the Company adopted a non-contributory tax reduction act stock ownership plan for all full-time salaried employees who had completed two and one-half years of continuous service. Due to changes in the tax laws, the Company has made no contributions to the plan for any periods after December 31, 1982, but Common Stock previously contributed to the plan continues to be held for the benefit of its participants.

Payroll-Based Employee Stock Ownership Plan

Effective January 1, 1983, the Company adopted a payroll-based employee stock ownership plan for all eligible employees. All full-time employees were eligible to participate in the plan if they completed two and one-half years of continuous service and were actively participating in the Stock Purchase Plan on the last day of the Company's fiscal year. The Company was allowed a tax credit for contributions made by it to the plan, based on a percentage of the aggregate compensation paid to or accrued by participants during the plan year. The maximum credit was .5% of the participants' compensation. Contributions to the plan were made in Common Stock or, if made in cash, were used by the Trustee to purchase Common Stock. As a result of the Tax Reform Act of 1986, no additional contributions will be made for compensation paid after December 31, 1986. Amounts accrued during fiscal 1987 and paid to the accounts of the officers named in the cash compensation table during the fiscal year ended April 24, 1988 were: Brenton S. Halsey, \$501; Robert C. Williams, \$501; Ronald L. Singer, \$501; Judd H. Alexander, \$501; David J. McKittrick, \$501; and all current executive officers as a group, \$5,511. There will be no contributions for the fiscal year ended April 24, 1988.

Stock Purchase Plan

In 1973, the Company adopted its Stock Purchase Plan. Since the adoption of the plan, there have been several amendments to its provisions. The plan provides that each employee who elects to

participate may have contributions made either in the form of salary reduction contributions which meet the requirements of Section 401(k) of the Internal Revenue Code or in the form of after-tax contributions. Contributions may range from 1% to 10% of a participant's compensation, excluding incentive compensation. Employees may make both salary reduction and after-tax contributions at the same time. The Company contributes monies on behalf of each participant based on percentages, as defined in the plan, of the participant's salary reduction and after-tax contributions ranging from 1% to 6% of his compensation. The Company's contributions may range from 60% to 110% of each participant's salary reduction contributions and from 50% to 100% of each participant's after-tax contributions. The Company makes no contribution with respect to the portion of the participant's aggregate contribution in excess of 6% of his compensation. Shares represented by amounts contributed by the Company prior to July 1, 1986 became vested over a two-year period and are fully vested as of July 1, 1988. Effective July 1, 1986, shares represented by Company contributions made with respect to a participant's salary reduction contributions are fully vested at all times and the shares represented by Company contributions made with respect to a participant's after-tax contributions will vest after a participant has made contributions for 24 months and thereafter will be fully vested at all times. Company contributions allocated under the plan to the accounts of the officers named in the cash compensation table for the fiscal year ended April 24, 1988 were: Brenton S. Halsey, \$13,696; Robert C. Williams, \$10,999; Ronald L. Singer, \$6,946; Judd H. Alexander, \$5,597; David J. McKittrick, \$4,996; and all current executive officers as a group, \$69,092.

Crown Zellerbach Corporation Plans

The Company acquired Crown Zellerbach Corporation ("Crown") effective May 5, 1986. In connection with this acquisition, the Company assumed administrative responsibility for the Crown Zellerbach Employee Stock Ownership Plan ("CZ PAYSOP") and the Crown Zellerbach Salaried Employees Retirement Savings Plan ("CZ Savings Plan"). On May 5, 1986, employees were no longer eligible to become participants in the CZ PAYSOP and benefits for plan participants at that time were frozen. Thus, the Company did not make any contributions to the CZ PAYSOP for the fiscal year ended April 24, 1988.

The CZ Savings Plan was amended and restated effective May 5, 1986 and was renamed the James River Corporation of Nevada Salaried Employees Retirement Savings Plan effective January 1, 1988. Employees who were not participants in this plan prior to July 1, 1986 were not eligible to become participants. Both Company and employee contributions continued to be made to the plan until June 30, 1986 for active plan participants. Thus, the Company did not make any contributions to this plan for the fiscal year ended April 24, 1988. Common Stock purchased with monies previously contributed to the plan continues to be held for the benefit of its participants.

Stock Option Plans

The Company adopted a Stock Option Plan in 1977 which expired on January 5, 1987. No additional options may be granted pursuant to this plan, although options which were previously granted and are still outstanding may be exercised in accordance with the provisions of the plan. Effective February 12, 1987, the Company adopted the 1987 Stock Option Plan which was approved by the shareholders in fiscal 1988. Both plans, which provide for the grant of both incentive stock options and non-statutory options to executive officers and key employees of the Company, are administered by the Compensation Committee. This committee is comprised of three disinterested directors and is responsible for selecting the optionees and determining the number of shares with respect to which each

option is granted. The purchase price for each share of Common Stock covered by an option is equal to the fair market value per share of the Common Stock on the date the option is granted. Pursuant to the Stock Option Plan, options were granted for a term of ten years and become exercisable in four equal cumulative annual amounts beginning four years after the date of grant. Pursuant to the 1987 Stock Option Plan, options are granted for a term of ten years for incentive stock options and ten years and one day for non-statutory options and become exercisable in three equal cumulative annual amounts beginning three years after the date of grant, subject to acceleration in certain circumstances, including the participant's retirement, permanent disability or death or a merger of the Company, except as limited by the Tax Reform Act of 1986.

Both the Stock Option Plan and the 1987 Stock Option Plan provide that the Compensation Committee may grant "Release Rights" with regard to non-statutory options. Release Rights allow an optionee to release some of his non-statutory options and receive in cash the value (the excess of the fair value over the option price) at the time of release of the number of shares which would have been received upon the exercise of the released options. The number of Release Rights granted is determined by a formula designed to approximate the optionee's tax liability resulting from the optionee's exercise of options. In addition, the plans provide that holders of non-statutory options have the right to exchange previously owned Common Stock at current market value to pay the option price for the exercise of non-statutory options. These rights are referred to as "Exchange Rights".

During the fiscal year ended April 24, 1988, the officers named in the cash compensation table were granted non-statutory options as follows: Brenton S. Halsey, 17,270; Robert C. Williams, 13,730; Ronald L. Singer, 19,400; Judd H. Alexander, 5,600; David J. McKittrick, 6,100; at average per share option prices of \$34.38, \$34.38, \$26.17, \$34.38 and \$34.24, respectively. All current executive officers as a group were granted an aggregate of 102,000 non-statutory options at an average per share option price of \$32.68. The net value realized (the market value of the shares at exercise less any exercise price) for stock options exercised during fiscal 1988 was: Brenton S. Halsey, \$0; Robert C. Williams, \$0; Ronald L. Singer, \$98,504 (incentive stock options); Judd H. Alexander, \$60,062 (incentive stock options); David J. McKittrick, \$68,127 (non-statutory options); and all current executive officers as a group, \$542,989 (incentive stock options) and \$108,484 (non-statutory options).

Stock Appreciation Rights Plan

Adopted in 1979 and approved by the shareholders in 1984, the Stock Appreciation Rights Plan provided for the grant of stock appreciation rights ("SAR's") to certain of the Company's executive officers and key employees. On February 12, 1987, the plan was terminated by the Board of Directors, so that no additional SAR's may be issued under the plan, although SAR's which were previously granted and are still outstanding may be exercised in accordance with the provisions of the plan. Termination became effective on August 13, 1987 when the shareholders of the Company approved the adoption of the Company's 1987 Stock Option Plan.

The plan provided that the Board of Directors would annually establish the number of SAR's which the Compensation Committee could award during the fiscal year. Such amount could not exceed 1% of the number of shares outstanding at the beginning of any fiscal year. The plan also provides that a grantee may exercise his SAR's until the first to occur of the date that is two years after his retirement or the date on which the SAR's expire according to their terms. A similar provision applies in the event of the grantee's death. A SAR entitles the grantee to receive, without payment, an amount of cash, Common Stock, or a combination thereof, equal to the difference between the fair market value of one

share of Common Stock on the date the right was granted and the average fair market value of one share of Common Stock during the fiscal quarter immediately preceding the date on which the right was exercised. The Compensation Committee has the discretion to determine the method of payment. SAR's were granted for a term of ten years and become exercisable in four equal cumulative annual amounts beginning four years after the date of grant.

During the fiscal year ended April 24, 1988, no SAR's were granted to any employee. The net value realized (the market value of the shares at exercise less any exercise price) for SAR's exercised during fiscal 1988 was: Brenton S. Halsey, \$322,981; Robert C. Williams, \$0; Ronald L. Singer, \$206,325; Judd H. Alexander, \$0; David J. McKittrick, \$458,325; and all current executive officers as a group, \$1,344,557. The SAR's exercised by Messrs. Halsey, Singer and McKittrick were granted in fiscal 1981, fiscal 1983 and fiscal 1980, respectively. The average annual net value realized for SAR's exercised from the year in which SAR's could first be exercised in fiscal 1984 through fiscal 1988 was: Brenton S. Halsey, \$64,596; Robert C. Williams, \$0; Ronald L. Singer, \$41,265; Judd H. Alexander, \$0; David J. McKittrick, \$91,665; and all current executive officers as a group, \$282,599.

Deferred Stock Plan

In 1984, shareholders approved the adoption of a Deferred Stock Plan for the Company's most senior persons who have rendered and who are expected to continue to render extraordinarily valuable services to the Company. The plan provides that an award shall be determined as a dollar amount which is then converted into hypothetical shares of Common Stock at the fair market value of the Common Stock as of the business day immediately preceding the date of the award. At the end of each fiscal year, dividends which would have accrued on such shares are credited to a grantee's account in the form of additional hypothetical shares. The grantee's interest in the hypothetical shares becomes vested in equal annual increments over a period of time established by the Compensation Committee for each grantee. Upon irrevocable election of the grantee at the time of the award, awards are paid as amounts become vested or in installments upon retirement or after age 65. Payments may be made in shares of Common Stock or a combination of Common Stock and cash based on the fair market value of the Common Stock at the date of payment. Generally, cash payments are limited to the amount which approximates the grantee's tax liability resulting from the payment of the award.

During the fiscal year ended April 24, 1988, no employees were awarded any hypothetical shares pursuant to the plan. The net value realized (the market value of shares and cash received) for distributions under the Deferred Stock Plan during fiscal 1988 was: Brenton S. Halsey, \$0; Robert C. Williams, \$0; Ronald L. Singer, \$65,368; Judd H. Alexander, \$0; David J. McKittrick, \$58,483; and all current executive officers as a group, \$850,651.

Incentive Compensation Plan

The Company maintains an incentive compensation plan which provides that the lesser of (i) eight percent of the Company's annual consolidated pretax profits, excluding the loss from any profit center that has a pretax operating loss for the fiscal year, or (ii) ten percent of the Company's actual annual consolidated pretax profit may be paid to salaried employees, at the discretion of and in a manner approved by the Board of Directors, based upon the employee's individual performance and contribution to the profit and growth of the Company. Messrs. Halsey and Williams do not participate in payments from this plan but were granted year-end bonuses by the Board of Directors. Incentive compensation and bonus amounts are reflected in the amounts set forth in the cash compensation column.

Pension Plan; Supplement

The Company provides a pension plan for salaried employees, which was amended effective April 1, 1986, to which participating employees contribute $\frac{3}{4}$ of 1% of their base salary subject to Social Security tax and 1.4% of their salary in excess of that amount. Annual benefits payable under the plan are currently equal to 230% of the aggregate lifetime contributions by the participant. For a participant who retires after April 1, 1986, a minimum benefit is provided which is equal to 60% of the participant's compensation for the 1985 plan year, reduced by 75% of his primary Social Security benefit and reduced by 4% for each year by which the participant's years of participation in the plan are less than 25. Effective in 1988, the maximum annual benefit which can be paid to any employee from the plan is \$94,023. This amount may be increased to take into account increases in the cost of living. The Company also maintains a supplemental benefit plan that will provide eligible individuals with the difference between the benefits they actually accrue under the plan and the benefits they would have accrued under such plan but for the maximum benefit limitation imposed by law. The supplemental benefits are not funded and are to be paid by the Company as the benefits become payable.

The Company's cost to fund the pension plan benefits is actuarially determined and cannot be individually calculated. For fiscal 1988, the Company will fund an amount equal to approximately 6% of the aggregate salaries of the participants. The total cumulative contributions made to the plan as of April 24, 1988 by each of the officers named in the cash compensation table were: Brenton S. Halsey, \$69,661; Robert C. Williams, \$54,390; Ronald L. Singer, \$20,149; Judd H. Alexander, \$20,379; David J. McKittrick, \$19,277; and all current executive officers as a group, \$274,488. Expected annual benefits, including supplemental benefits, at age 65 based on 1987 contribution levels are as follows: Brenton S. Halsey, \$282,043; Robert C. Williams, \$274,727; Ronald L. Singer, \$286,180; Judd H. Alexander, \$67,408; David J. McKittrick, \$263,833; and all current executive officers as a group, \$1,980,499.

Crown Retirement Plan

In connection with the Company's acquisition of Crown, the Company assumed administrative responsibility for Crown's retirement plan, amended as of May 5, 1986. The plan provides pension benefits for salaried and hourly employees of Crown. Participating employees do not contribute to the plan. The pension benefits accrued to salaried employees were frozen on May 31, 1986, however, hourly employees will continue to accrue benefits under the plan. No salaried employees were eligible to become participants in this plan after May 31, 1986. The participating salaried employees who continued in the employment of the Company were eligible to become participants in the Company's pension plan as of June 1, 1986.

A participant's normal retirement benefit pursuant to the Crown retirement plan will be determined under the participant's applicable benefit schedule with reference to his period of benefit service and other relevant factors as defined in the plan. An applicable benefit schedule may provide for a minimum benefit, a flat rate benefit or an ending pay average formula with an offset for the primary Social Security benefit. If the applicable benefit schedule provides for more than one benefit formula, a participant's normal retirement benefit will be the greatest benefit for which he is eligible. A participant's normal retirement benefit is subject to certain limitations defined in the plan and any maximum benefit limitations specified in the applicable benefit schedule.

Effective in 1988, the maximum annual benefit which can be paid to any employee from the plan is \$94,023. This amount may be increased to take into account increases in the cost of living. A supplemental benefit plan that will provide benefits similar to those described above for the Company's

supplemental benefit plan is also maintained under Crown's retirement plan. In addition, the plan provided for a special terminal leave benefit for salaried participants whose employment was terminated within two years after a change in control of Crown. This program provided enhanced retirement benefits for the covered employees.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Upon the recommendation of the Audit Committee, the Board of Directors has designated Coopers & Lybrand to serve as the independent certified public accountants of the Company for its fiscal year ending April 30, 1989, and has directed a vote of shareholders to be taken to ascertain their approval or disapproval of that designation. In the event the shareholders do not ratify the appointment of Coopers & Lybrand, the selection of other independent auditors will be considered by the Board of Directors.

A representative of Coopers & Lybrand is expected to be present at the Annual Meeting of Shareholders. He will have an opportunity to make a statement if he so desires and will be available to answer appropriate questions from shareholders.

ANNUAL REPORT

A copy of the Annual Report of the Company for the fiscal year ended April 24, 1988 is being mailed to you with this Notice and Proxy Statement. No part of the Annual Report shall be regarded as proxy soliciting material.

OTHER MATTERS THAT MAY COME BEFORE THE MEETING

The Company has no present knowledge of any other matters to be presented at the Annual Meeting of Shareholders. If any other matters should properly come before the meeting, and any adjournment thereof, it is the intention of the persons named in the accompanying Proxy to vote such Proxy in respect to any such other matter in accordance with their best judgment.

PROPOSALS FOR 1989 ANNUAL MEETING

Any shareholder desiring to make a proposal to be acted upon at the 1989 Annual Meeting of Shareholders must present such proposal to the Company at its principal office in Richmond, Virginia, not later than March 7, 1989 in order for the proposal to be considered for inclusion in the Company's Proxy Statement.

Brenton S. Halsey
Chairman

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended April 24, 1988 filed with the Securities and Exchange Commission may be obtained by any shareholder after August 11, 1988, free of charge, upon request to William L. Flaherty, Vice President, Treasurer, James River Corporation of Virginia, P.O. Box 2218, Richmond, Virginia 23217.

Financial Highlights

<i>(Amounts in thousands, except per share data)</i>	1988	1987	Change
Net sales	\$5,097,978	\$4,479,001	13.8%
Net income	209,010	169,864	23.0%
Earnings per share (fully diluted)	2.36	2.03	16.3%
Cash dividends per common share	.40	.40	—
Working capital at fiscal year end	713,800	711,827	.3%
Capital expenditures	623,079	508,973	22.4%

Distribution of Sales by Strategic Market

Strategic Market	Fiscal 1988 Sales (in Millions)	% of James River Total
Hygienics	\$1,385.4	27%
Communications	1,184.1	23
Food & Consumer Packaging	818.9	16
Food & Beverage Service	803.0	16
Specialty Industrial & Packaging	722.4	14
Market Pulp & Other	184.2	4
Total	\$5,098.0	100%

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To Our Shareholders



Brenton S. Halsey Robert C. Williams

James River achieved record sales, net income and earnings per share for its fiscal year ended April 24, 1988. These results reflect strong demand for James River's products and high operating levels, partly offset by rapidly rising raw material costs. The year was characterized by significant international expansion as the Company undertook four new ventures in Europe. In the United States, James River announced two additional acquisitions and continued to devote substantial resources to internal growth.

For the full fiscal year, James River earned \$2.36 per share, a 16% increase over the \$2.03 reported last year. Sales for the year were \$5.1 billion, compared with \$4.5 billion in the prior year. Net income for the year was \$209 million, a 23% increase, compared with the \$170 million last year.

James River's upward performance has continued despite an environment of rapidly rising commodity raw material

costs and competitive market forces. Growing world demand for commodity products, such as market pulp, resins and chemicals, and a weakened U.S. dollar have resulted in strongly escalating prices for these raw materials. These combined conditions have created lags in passing through cost increases to customers on a timely basis.

The James River Food and Beverage Service business had an outstanding year reflecting good demand, enhanced by a number of new products and improved service. This business continues to operate at high levels, despite competitive pressures. James River's Paperboard Packaging operations reflected a significant turnaround from the previous year. Earnings for Communication Papers were up due to steadily improving market conditions, operating efficiencies and incremental expansions.

Earnings for the full year from the Specialty Papers business were down

slightly; however, results improved substantially in the last six months as demand and pricing strengthened. The Flexible Packaging business was adversely affected by lags in passing through resin cost increases and operating problems with new processes.

Earnings for the Towel & Tissue business, which includes nonwovens, were down slightly reflecting higher raw material costs. Recently announced consumer towel and tissue price increases, the first in four years, will benefit income in this business next year.

During the year, James River continued to significantly expand its presence in the growing European marketplace. The Company established a strong base in the hygienics market with the purchase of a 50% interest in Kayserberg, S.A., the leading producer of disposable hygienic products in France. The Company also formed a joint venture in Sweden to produce nonwoven products.

James River augmented its Specialty Papers operations with the purchase of two mills in the United Kingdom and a small converting operation in Ireland. These specialty operations manufacture photographic papers, engineering office products and specialty adhesive labels.

Early in June 1988, the Company completed the indirect acquisition of a 6% interest in Aracruz, a Brazilian manufacturer that is the world's lowest cost producer of eucalyptus pulp. This indirect interest was acquired through a direct investment in the Lorentzen Group of Rio de Janeiro, under whose leadership the Aracruz mill was established.

In the United States, James River continues to pursue strategic additions to its businesses. During the year, the Company completed the acquisition of Dunn Paper Company which produces lightweight coated and uncoated specialty papers. In June 1988, the acquisition of Ridgway Packaging

Corporation, a leading West Coast folding carton manufacturer, was completed.

During the fourth quarter, the Company sold the operating assets of its Port Angeles, Washington pulp and paper mill after concluding that this mill, which produces groundwood directory paper, did not fit its long-term strategies. The Company also idled its Hyde Park, Massachusetts printing paper mill prior to signing a letter of intent under which a third party would lease the facility with an option to purchase in the future.

James River continues to devote significant capital resources to improving operating margins. Capital spending for this fiscal year was \$623 million.

New projects underway include a new tissue machine at the integrated pulp and paper mill at Wauna, Oregon which is scheduled for a December 1988 start-up, an expansion of pulping capacity at Camas, Washington and the expansion of the groundwood specialty papers facility at Wauna. In fiscal 1988, the Company approved construction of a secondary fiber plant in Green Bay, Wisconsin to partially replace virgin pulp with recycled fiber, yielding substantial cost reductions. The Company began construction of a new converting facility in Richmond, Virginia to produce specialty printed

napkins, tablecloths and placemats for the away-from-home foodservice market. Additional projects include a production line at Minerva, Ohio for new, focused microwave popcorn bags and substantial modifications of the coating facility in North Portland, Oregon to expand participation in thermal coated markets.

The Company's financial activities during the year were highlighted by the September 1987 public offering of \$200 million of convertible, exchangeable preferred stock. These shares carry a dividend rate of 7% and are convertible into James River common stock at \$40 per common share. The proceeds of the offering have been used to support the Company's capital investment and acquisition programs.

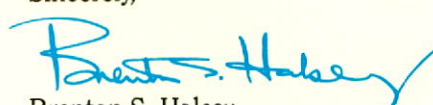
In October, in the face of the general stock market decline, James River initiated a plan to repurchase up to four million shares of its common stock on the open market. Approximately 1.4 million shares were acquired during fiscal 1988.

In June 1988, the Board declared a quarterly common dividend of \$.12 per share, a 20% increase over the earlier rate of \$.10. This reflects the Company's continuing policy of paying out approximately 20% of earnings in dividends, and this is the fourth dividend increase in the past five years.

During this period the dividend rate has increased by a total of 170%.

Despite the record earnings level, management is not satisfied with the Company's progress toward reaching its return on equity goal of 16%. Strong emphasis will be placed on moving toward this goal in the next several years, while at the same time maintaining an appropriate level of investment related to longer term objectives. Value to the customer through product and service performance, supported by aggressive product development, information technology and strengthening of human resources continues to represent the long-term strategic thrust of the Company. These directions underline our Vision of the Future which appears on the following page.

Sincerely,



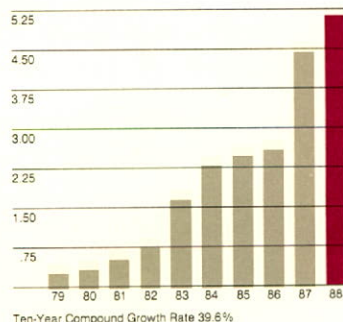
Brenton S. Halsey
Chairman, Chief Executive Officer



Robert C. Williams
President, Chief Operating Officer

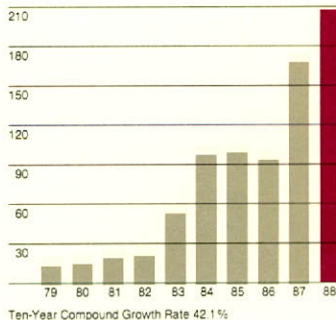
NET SALES

(In Billions of Dollars)



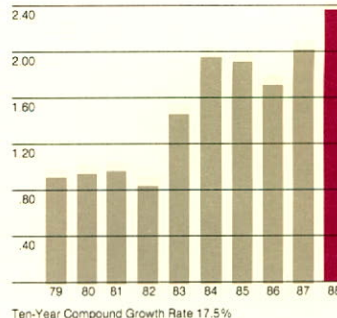
INCOME

Before Extraordinary Charges
(In Millions of Dollars)



EARNINGS PER SHARE

Fully Diluted, Before Extraordinary Charges
(In Dollars)



Vision of the Future

James River Corporation exists for the purpose of increasing the standard of living of the Corporation's shareholders and employees and otherwise contributing to the economic well-being of its customers, suppliers and the nations in which the Corporation is doing business. In so doing, it will create stable jobs which provide a challenging and rewarding life in an atmosphere where interpersonal relationships meet the highest test of a civilized society.

These purposes create a vision for the future in which James River Corporation is the premier world-wide pulp, paper, packaging and related products company; is operating with the highest standard of ethics in all respects; is concentrating on differentiated, high value-added products; and is viewed by its customers as the most responsive and creative producer in its industry. James River will have a work force which is challenged and motivated, and its members will feel good about and have fun in their jobs. They are bound together by shared values and beliefs and common industry skills. In this vision, the Corporation is outperforming its competition as measured by return on capital which, on average over the years, substantially exceeds its cost of capital and the return achieved by its competitors.

Strategic Markets

James River is engaged principally in manufacturing, converting and marketing paper and related products, including products using plastic, film and other synthetic materials. The Company serves markets which are characterized by relatively stable demand. James River's strategy is to offer superior product and service performance in the markets listed below:

- Hygienics
- Communications
- Food and Consumer Packaging
- Food and Beverage Service
- Specialty Industrial and Packaging

The Company's products and the strategic markets they serve are described in the following pages.

Hygienics



Communications



Food and Consumer Packaging



Food and Beverage Service

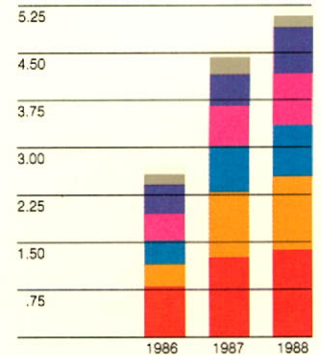


Specialty Industrial and Packaging



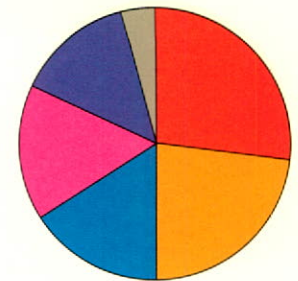
PRODUCT SALES BY MARKET

(In Billions of Dollars)



■ Market Pulp and Other
 ■ Specialty Industrial and Packaging
 ■ Food and Beverage Service
 ■ Food and Consumer Packaging
 ■ Communications
 ■ Hygienics

DISTRIBUTION OF SALES BY MARKET



■ Hygienics 27%
 ■ Communications 23%
 ■ Food and Consumer Packaging 16%
 ■ Food and Beverage Service 16%
 ■ Specialty Industrial and Packaging 14%
 ■ Market Pulp and Other 4%

Hygienics

James River is the second largest producer of sanitary paper products in the United States. These products are sold to both the consumer and institutional (away-from-home) markets. Consumer products, which account for approximately 60% of James River's hygienics sales in the U.S., include the national brands of Northern® bathroom tissue and napkins and Brawny® towels. The Company also has a strong presence on the West Coast with Nice 'n Soft® bathroom tissue, Spill Mate® towels and Zee® napkins. These products are marketed on both a national and regional basis, principally through supermarkets and other mass merchandisers.



Proprietary away-from-home towel dispenser

James River's away-from-home business offers the broadest line of products in the industry and represents 30% of the Company's hygienics sales in the U.S. These products are distributed nationally to the foodservice, lodging, manufacturing, office and health care industries.

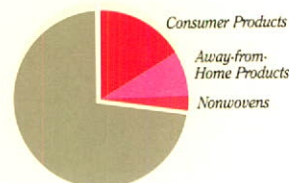
In addition, James River produces a wide array of nonwoven products which are fabrics made of webs of synthetic or cellulose fibers without weaving or knitting. These products are used in personal care products, disposable diapers, baby wipes and medical applications. The Company also manufactures nonwoven

products for a wide range of industrial applications.

The U.S. sanitary paper products segment of the paper industry is large, mature, highly concentrated and significantly less vulnerable to business cycle fluctuations and foreign competition than other segments of the paper industry. Within this environment, James River's high market shares, strong brand images and outstanding quality are significant competitive strengths. James River's manufacturing facilities are located in all major regions of the United States, and these operations are highly integrated through the production of woodpulp and recycled fiber.

Presently, the U.S. sanitary tissue market is characterized by stable demand which has been growing at an annual rate of approximately 2% over the last five years. James River is optimizing its position and operations in this mature and competitive marketplace by allocating capital primarily to quality upgrades, cost reduction and facility optimization, with new capacity being added selectively to maintain market share.

27% of
James River Net Sales



Consumer products



Away-from-home products



Nonwovens



"The mature, highly concentrated U.S. tissue industry calls for an optimization strategy. The faster growing, fragmented hygiene products markets of Europe call for a growth strategy."

*Ronald L. Singer
Senior Vice President, Group Executive
Towel & Tissue Business*



James River's long-running advertising campaign featuring little girls has successfully communicated the message that "Northern Bathroom Tissue is quilted for a special kind of softness."

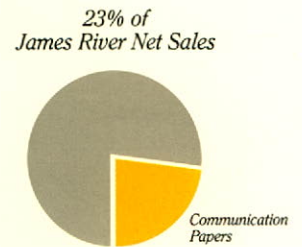


"We continue the shift in Communication Papers to a market-driven, multi-mill system. Our energies are focused on upgrading our resources, both human and capital, in order to better serve our customers as a preferred supplier."

*Ernest S. Leopold
Senior Vice President, Group Executive
Communication Papers Business*



Printers demand the superior quality and broad product lines offered by James River's communication papers.



Communications

James River produces a broad range of communication papers for printing, publishing, business and graphic arts applications. These papers range from specialty cast coated products, highly specialized book covering materials and textured and colored printing papers, to high volume forms bond, offset, computer and copy papers. In addition, the Company produces coated groundwood specialties for catalogs and advertising supplements as well as coated free sheet for high grade advertising materials. These products are sold either on a direct basis or through merchants and brokers to consumers, converters, packagers, publishers and banking and security printers.

While the communication papers market is highly competitive and manufacturing is relatively fragmented, it has experienced the highest growth in demand of any major paper segment. The weakened U.S. dollar has minimized import competition and modest capacity increases have contributed to the current pricing strength of most grades in this market.

Few manufacturers match James River's broad line of communication papers. Positioned at the high value-added end of the industry, James River has a well-established distribution network and manufacturing operations located throughout the country. Together with an emphasis on quality, these strengths make James River a leader in this field.

To maintain its leadership position in the industry, the Company is continuing to broaden its product line and is augmenting capacity. Superior service and quality continue to receive the highest priority.



Communication papers



"We expect strong performance in the year ahead for our Flexible and Paperboard Packaging businesses. We will depend on our leadership in innovation and the many sound 'partnerships' we have established with America's premier manufacturers of food and other grocery-distributed products for this growth."

*Judd H. Alexander
Executive Vice President
Packaging Business*



The superior performance and graphics of James River's packaging products appeal to consumers of all ages.

Food and Consumer Packaging

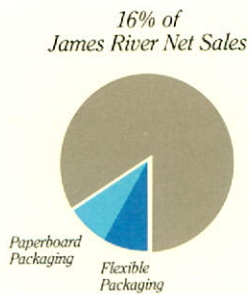
James River's paperboard and flexible packaging operations together produce the broadest line of paper and plastic packaging materials for food products and consumer goods in the industry. These operations serve most of the largest food and consumer products companies in the United States. As the leader in the food packaging market, James River manufactures printed cartons and containers used for frozen foods, ice cream, microwaveable foods, cereal and other dry foods, bakery items and meat. Typical flexible packaging products manufactured and converted by James River include bread bags, dry food pouch stock and packaging for snack and frozen foods. In addition to food packaging, a substantial market exists for the Company's films, laminates and coated papers in personal care products.

The food packaging segment of the paperboard packaging market is stable, mature and large and represents 60% of the \$3.5 billion paperboard market. James River's strategy is to prevail with superior product performance emphasizing the unique physical and aesthetic properties increasingly required in packaging and selling these consumer products.

The flexible packaging market totals approximately \$9 billion in the U.S., two-thirds of which represents sales to food processors. James River produces a wide variety of products made of plastic films and films combined with other structural materials such as paper or metallic foils. Offering convenience and low cost, flexible packaging has been experiencing steady growth—primarily as a replacement for glass and metal. This growth is almost twice that of the packaging industry as a whole.

Within the food packaging market, James River has a strong competitive position with a wide range of converting technologies, very broad product lines, strong graphics capabilities, high market shares, vertically integrated operations and national marketing and sales forces.

The Company expects to maintain its leadership position by focusing on product performance and service and by continuing to develop new products and technologies for manufacturing and printing. As a pioneer in microwave packaging, James River is expanding its capabilities and product offerings in this growing area of the consumer marketplace. In addition, a number of capacity expansion projects are underway, including increased film and laminating capacity as well as greenfield folding carton plants utilizing proprietary technology and the latest techniques in high performance work systems.



Paperboard packaging



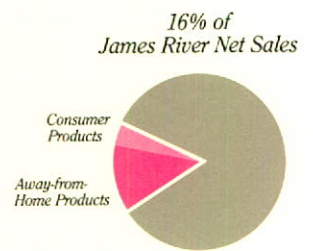
Flexible packaging

Food and Beverage Service

James River is the nation's second largest producer of disposable food and beverage service products, with the most complete line of consumer and away-from-home products offered in these markets. Since entering this arena in 1980, the Company has expanded its operations through an aggressive acquisition program. In addition, James River has experienced steady growth from product innovations and a generally favorable market environment. James River is the only vertically integrated producer of paper cups and plates in the country. Today, the Company's sales of paper-based products are approximately \$613 million and sales of foam or plastic cups, plates, utensils and other containers are approximately \$190 million.

Within the consumer marketplace, James River's popular Dixie® and Paper Maid® brand names together have high market shares. These products, which represent about 24% of the Company's food and beverage service sales, are sold throughout the United States. This year marked the Company's entry into the party goods market with a triple laminate plastic cup. These Dixie® Party Cups are currently rolling out on a national scale. In the away-from-home market, James River is represented in virtually every major fast food operation in the United States, as well as serving a broad cross section of smaller retail food concerns through a strong system of food service distributors.

Looking ahead, the Company continues to emphasize service to strengthen its product lines with improved product offerings using proprietary technologies. Capital expenditures are directed toward increasing productivity and reducing costs, as well as aggressively expanding foam and plastic manufacturing capabilities.



Consumer products



Away-from-home products



Away-from-home products



"Dixie is America's leading supplier of cups and plates. Last year Dixie realized market share growth in all categories. We expect additional increases this year based upon continued growth of current products and the on-going introduction of new products, such as plastic Dixie® Party Cups."

*Charles M. Foster
Senior Vice President, Group Executive
Dixie Products Business*



James River's high performance Superware® plates are sturdy, soak-proof and spill-proof. A recently aired commercial quips, "The marriage should be so strong."

Specialty Industrial and Packaging

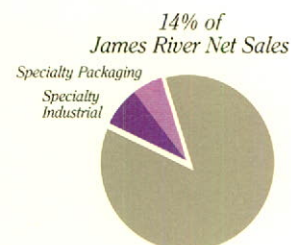
As the largest specialty paper manufacturer in the world, James River produces a wide variety of industrial and packaging papers and film products designed to meet specific customer needs. With 34 paper machines in three countries producing both coated and uncoated products, James River's specialty operations have the capability to provide innovative, cost effective, custom-designed products.

The Company's specialty industrial papers include those used for automotive, industrial and commercial filtration as well as pressure sensitive release papers, masking tape base papers, abrasive backing papers, gasket and electrical insulating papers. Specialty packaging products serve a broad range of end uses for industrial and food markets, primarily in areas requiring moisture- and vapor-barrier resistance. Other James River products include high quality imaging and custom coated film products for the engineering, graphic arts and electronics industries. These imaging products include microfilm, drafting, intermediate and duplicating films, as well as printed circuit films. Other types of custom products produced are coated base materials for photographic film manufacturers, battery components for instant cameras, and masking and photoresist films for the electronic circuit board industry.

Because of the diversity of end uses, sales of specialty papers generally track the U.S. economy as a whole. The industry is highly fragmented with the typical producers operating small, non-integrated paper mills. Favorable trends in the pressure sensitive label industry, convenience foods market and electronic communications indicate continued growth for specialty papers.

James River's strength in the specialty industrial and packaging market is derived from its manufacturing flexibility, strong customer relationships and an emphasis on new product development. Despite its size, the Company's understanding of the special demands of this market have led to a decentralized entrepreneurial organization which is supported by strong corporate resources, including a significant commitment to research and development.

With a strong emphasis on product performance, customer service and decentralization, the Company expects to maintain a leadership position in this market by continued expansion in selected high growth areas.



Specialty packaging papers



Specialty industrial papers



Film



"Product performance continues to be the key to success for our unique line of specialty products. Each of our divisions, through a strong customer focus and selective investments, will strengthen its competitive position."

*James E. Rogers
Senior Vice President, Group Executive
Specialty Papers Business*



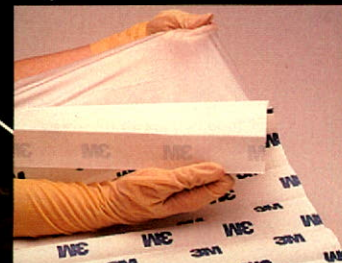
Abrasive backing



Medical diagnostic imaging base



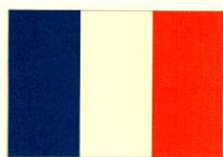
Graphic films release liner



Surgical drape release liner

James River produces many of the papers that are used in high quality 3M products. Examples of these papers are: heavy-weight backing for abrasive products; certified base stock for selected Dry Silver Recording papers; dimensionally stable liner paper for Controllac™ film products; and clean, continuous release paper for Steri-Drape™ surgical products.

International Operations



Until recently, James River has concentrated its growth efforts in the United States although the Company has been managing successful operations in Canada and Scotland for several years.

Today, increasing opportunities for the Company's product knowledge and technology exist in global markets. This is particularly true for Europe where high value-added paper consumption lags that of the United States but is growing more rapidly. As trade barriers between European Economic Community (EEC) members are gradually reduced, the opportunities for standardized products and broad European marketing programs are increasing. There is a strong trend toward manufacturing and transportation consolidations which are more efficient and cost effective than previously fragmented systems.

As envisioned by member countries, the EEC, with over 350 million people, will one day represent the largest consumer market in the free world. This marketplace will offer strong demand for the type of high value-added products manufactured by James River.

James River's involvement in European markets has taken a variety of forms, ranging from technology exchanges to joint ventures to full ownership. Joint ventures permit a partnering strategy in operations where complete ownership is not possible, but where a significant foreign ownership position may form the basis for a strong confederation positioned to exploit the opportunities of a growing Europe. Consistent with its overall growth strategies, James River will continue to explore offshore opportunities which will complement or expand its existing domestic product lines or which serve strategic markets similar to those served by the Company in the United States.





Hygienics

At present, European per capita consumption of sanitary paper products is increasing at a rate nearly twice that of the United States. Capitalizing on this opportunity, James River has gained a major foothold in Europe through the recent acquisition of a 50% interest in Kayserberg, S.A., the leading French producer of sanitary paper products.

Kayserberg's well known brand names, Lotus® bathroom tissue and Vania® feminine hygiene products, occupy leading positions in the French market. Kayserberg also manufactures and markets a broad line of towel and tissue, personal care and health care products to serve markets in Germany, Italy, Belgium, Luxembourg and the Netherlands. Kayserberg represents a significant cornerstone for future James River expansion in Europe.

James River is further enhancing its ability to serve the hygienics market through a recent joint venture with Holmens Bruk AB to form HJR Fiberweb AB. This new company, headquartered in Sweden, manufactures nonwoven materials for the personal hygiene market, as well as for the industrial, furniture and bedding markets. With its European manufacturing, sales and marketing experience, Fiberweb enhances James River's position in the global nonwovens market.



Communications

James River's wholly-owned subsidiary, GB Papers, Ltd., in St. Andrews, Scotland produces a line of high quality specialty printing and writing papers. GB Papers provides James River with a base to expand its market position for high value-added communication papers in Europe.



Food and Beverage Service

James River's Canada Cup operation is the leading manufacturer of plastic and paper disposable food and beverage service products in Canada, with five converting facilities and approximately \$60 million in sales. Canada Cup also has important proprietary technology in plastic cup manufacturing.

James River also operates a joint venture in Wales for the manufacture and distribution of paper products in Europe. This joint venture provides James River with an opportunity to expand its distribution of food service products into the rapidly growing European markets.

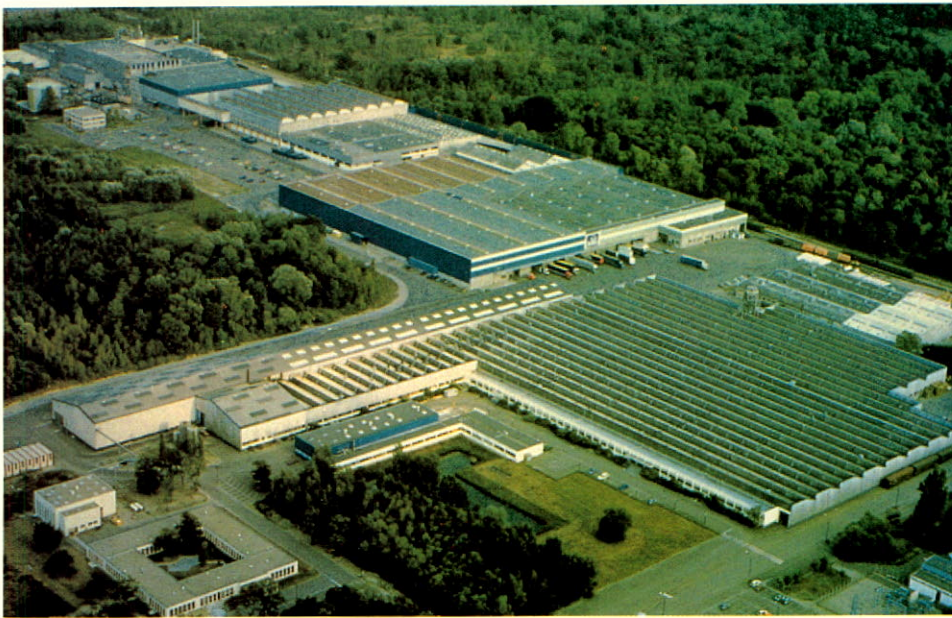


Specialty Industrial and Packaging

In Scotland, James River's Smith & McLaurin converting facilities produce thermal label and pressure sensitive materials, specialty reprographic and dielectric papers as well as heat seal and particle gum papers. These operations were expanded during the fiscal year with the acquisition of the operations of ADM Mota Ireland Limited, which manufactures specialty adhesive label materials for the Irish market.

In January 1988, James River acquired the drawing office and photographic papers businesses of the Wiggins Teape Group in Canterbury and High Wycombe, England. The drawing office papers business produces a wide range of engineering office products including tracing papers, diazo base papers, translucent copier papers, dielectric coating base papers and various other ink jet and pen plotter grades. The photographic papers business manufactures polyethylene and baryta coated papers for use in the color, monochrome and graphic arts photographic markets. These businesses have significantly strengthened James River's presence in European specialty markets.





Kunheim Plant, Alsace, France



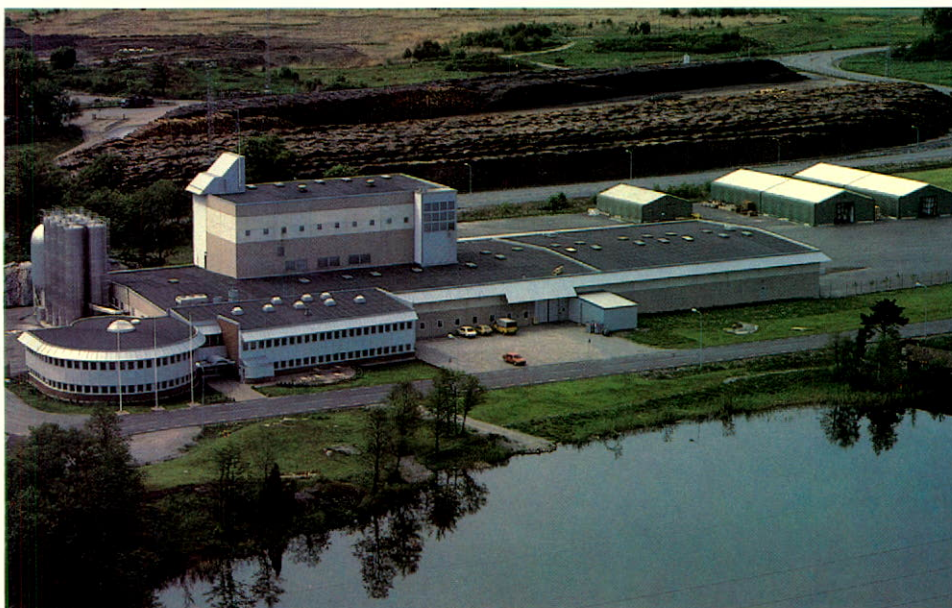
Kaisersberg Products



Glory Mill, High Wycombe, England



Wiggins Teape Products



Fiberweb Plant, Norrköping, Sweden



Fiberweb Product

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

Results of Operations

Overview:

During fiscal 1988, James River's revenues and net income increased substantially relative to fiscal 1987; however, the Company's gross margin declined as commodity raw material costs continued their rapid rise. Income before income tax rose slightly, and net income benefited additionally from a lower effective tax rate.

Fiscal 1987 revenues and earnings increased dramatically over those of fiscal 1986 as a result of acquisitions as well as growth in existing operations. Despite some adverse competitive conditions, the Company's operating margin improved relative to fiscal 1986, while gross margin declined slightly in response to increases in raw material costs coupled with competitive end-product pricing. Tax reform had a significant negative impact on the Company's results for fiscal 1987, as net income was reduced by approximately \$28 million or \$.35 per share due to the repeal of investment tax credits retroactive to January 1, 1986.

The table below sets forth for the year indicated (i) the percentage which the items in the Consolidated Statement of Income bear to net sales and (ii) the percentage increases of such items as compared to the indicated prior year.

James River produces a broad line of products which serve, directly and indirectly, almost every major segment of the U.S. economy. A variety of products is manufactured at each operating division, and the mix of products within divisions is constantly changing in response to varying customer needs or as a result of shifting levels of activity within segments of the U.S. economy. The Company also has highly decentralized

operating and marketing managements for its operating divisions which are responsible for their own pricing and product mix strategies as part of the overall divisional profit responsibility. As a result of the dynamics of the Company's product mix and the large number of decentralized operations, it is not practical or meaningful to quantify for the Company as a whole the separate impact of changes in price, sales volume and product mix.

Fiscal 1988 as Compared to Fiscal 1987:

Market conditions for most of James River's product lines remained competitive throughout fiscal 1988 and showed signs of improvement during the latter part of the year. The Company's gross margin for the year declined slightly reflecting operating difficulties early in the year as well as the continuing effects of commodity raw material cost increases throughout the period. Demand was generally strong in all areas during the year.

In the paper and other products segment, revenues increased by approximately 11% while operating margins fell slightly. In the latter half of the fiscal year, prices and demand began to improve and operating efficiencies were realized. Communication papers results were up slightly for the year as pricing and demand for coated and uncoated grades improved steadily. Specialty industrial and packaging papers closed the year on an optimistic note having passed through a significant portion of previous cost increases during the second half of the year. Demand for these papers also improved during the second half of the year; thus while full-year earnings were slightly down, the trend during the year was positive. Towel and tissue products, including nonwovens, sold into the hygienics markets were adversely affected by higher raw material costs which more than offset

Comparative Results of Operations

Fiscal Year Ended April	Percentage of Net Sales			Year-to-Year Percent Increase (Decrease)	
	1988	1987	1986	1988	1987
				vs 1987	vs 1986
Revenues:					
Net sales	100.0%	100.0%	100.0%	13.8 %	71.8%
Other income	1.1	1.3	.3	(6.6)	562.3
Total revenues	101.1	101.3	100.3	13.5	73.5
Costs and expenses:					
Cost of goods sold	76.7	76.0	75.4	14.8	73.3
Selling and administrative expenses	14.7	14.9	17.5	12.7	46.1
Interest	2.3	2.5	1.7	3.6	152.0
Total costs and expenses	93.7	93.4	94.6	14.2	69.6
Income before income tax	7.4	7.9	5.7	6.0	137.5
Income tax expense	3.3	4.1	2.1	(9.6)	240.5
Net income	4.1%	3.8%	3.6%	23.0 %	78.3%

the benefits of price increases in institutional products and down-sizing in consumer products. At the end of fiscal 1988, the Company announced broad price increases in the consumer towel and tissue products area. A strike at the Halsey, Oregon tissue mill, which began near the end of the fiscal year and was settled in late May, had an immaterial impact on fiscal 1988 results. The earnings for the paper and other products segment were buoyed by the strong results of the Company's market pulp sales, which partially offset the adverse impact of purchased fiber cost increases.

The overall results of the packaging and food service products segment reflected decreased operating margins related to higher costs for raw materials, which consist primarily of bleached paperboard and plastic resins. The food and beverage service business, while finishing the year in a highly competitive market environment, posted a substantial earnings increase. Paperboard packaging also posted a significant increase as it continued to recover cost increases and realize manufacturing efficiencies. Flexible packaging results were down as pricing steadily lagged resin cost increases during the year.

Selling and administrative expenses for the Company declined as a percentage of net sales, despite increased employee training and research and development efforts. The decrease primarily reflected lower compensation expense arising from certain employee benefits plans related to market prices for the Company's common stock. This factor is also reflected in the decline in general corporate expenses shown in segment information (see Note 16 of Notes to Consolidated Financial Statements).

The Company's effective tax rate declined to 44.6% in fiscal 1988 from 52.3% in fiscal 1987. This reduction reflected the decrease in federal tax rates for fiscal 1988 related to the Tax Reform Act of 1986 and the nonrecurring fiscal 1987 charge related to the retroactive repeal of investment tax credits.

Other income in fiscal 1988 was at a comparable level to that of a year earlier. Fiscal 1988 results included a \$10.3 million gain related to the excess of a property insurance settlement over the net book value of equipment damaged in Old Town, Maine during the first quarter. In addition, pretax income of approximately \$16.6 million was recorded in the fourth fiscal quarter, arising from a gain on the sale of the operating assets of the Port Angeles, Washington mill, partially offset by charges related to the Hyde Park, Massachusetts mill which was idled in December 1987. On a per share basis, the Hyde Park charges and the gain on the Port Angeles sale resulted in a net favorable impact of approximately \$.02. Other nonrecurring items are described more fully in Note 4 of Notes to Consolidated Financial Statements. The Company's equity in the income of two new joint ventures, Kaysersberg and Fiberweb, is included in other income in fiscal 1988.

Fiscal 1987 as Compared to Fiscal 1986:

James River's strong results in fiscal 1987 were achieved despite the significant impact of tax reform and adverse market condi-

tions in many of its product lines. In all product classes in the paper and other products segment of James River's operations, those operations which are less than fully integrated were adversely affected by rapid increases in the cost of market pulp during the year. Despite record sales, this impact was especially severe in the specialty industrial and packaging papers class where, like those of its competitors, the Company's facilities are generally not integrated and rising pulp costs were not accompanied by commensurate increases in selling prices. Towel and tissue products experienced some volume growth over fiscal 1986 (excluding volume from acquired operations); however, pricing remained competitive in consumer products which represent approximately 60% of the Company's hygienic products sales. Institutional towel and tissue pricing was somewhat better than consumer pricing, and price increases were initiated near the end of the fiscal year. Communication paper grades had mixed results as prices for uncoated free-sheet grades rose steadily during the first three quarters of the year, with discounting appearing in some grades during the last quarter. Coated papers did not fare as well; pricing remained competitive due to continuing over-supply conditions.

In the packaging and food service products segment, bleached board pricing adversely affected results as end-product pricing did not keep pace with raw material costs. The start-up of major capital projects caused additional decreases in margins. Improving margins were apparent near the end of the fiscal year in these areas.

Early in fiscal 1987, strikes at the Company's Green Bay, Wisconsin and Kalamazoo, Michigan facilities resulted in one-time charges in excess of \$.05 per share. These strikes affected the Company's towel and tissue, paperboard packaging and specialty packaging operations. Irrespective of these strikes, the Company generally considers its labor relations to be good.

Selling and administrative costs fell as a percentage of net sales primarily because promotional spending related to consumer hygienics market penetration in the Northeast decreased and acquired operations were integrated without commensurate administrative cost increases.

Interest expense more than doubled as increases in consolidated debt related to acquisitions totaled approximately \$815 million at a weighted-average interest rate of approximately 8.5%.

Other income increased dramatically over 1986 as the Company entered into various acquisition-related contracts which are more fully described in Note 4 of Notes to Consolidated Financial Statements. Other income also included the pretax income of the Crown Distribution business prior to its sale in September 1986.

The effective tax rate increased from 36.5% in fiscal 1986 to 52.3% in fiscal 1987 due to the repeal of investment tax credits retroactive to January 1, 1986 and the adverse effect of non-deductible expenses arising from differences between financial and tax bases of acquired assets.

Financial Condition

During fiscal 1988, James River completed a series of transactions designed to enhance its markets, operations and financial strength. Among these were four new ventures in Europe, the issuance of a series of convertible exchangeable preferred stock and a series of major revisions to the Company's debt structure. At the close of the year, the Company's measures of financial strength were essentially unchanged from the prior year.

In September 1987, James River issued 7% convertible exchangeable preferred stock ("Series L") for approximately \$200 million. The Series L is convertible by its holders into five million shares of James River common stock. Beginning in October 1989, the Company may redeem the Series L or call it for exchange into 7% convertible subordinated debentures due 2017. The issue was undertaken in order to provide additional equity for financing James River's long-term capital program and acquisitions.

In October 1987, the Company initiated a plan to repurchase up to four million shares of common stock. As of April 24, 1988, 1,374,000 shares had been acquired at a total cost of approximately \$28 million.

The Company completed a series of major revisions to its debt structure in April 1988. These included the establishment of new parent company credit lines totaling \$785 million which replaced prior domestic credit lines totaling \$635 million. The Company also commenced a \$250 million commercial paper program which is supported by a portion of the new credit lines. Also in April 1988, James River issued \$200 million of senior notes in a private placement and amended covenants related to substantially all of the Company's institutionally-held debt. In a merger transaction effected at fiscal year end, James River assumed the debt of the former Crown Zellerbach Corporation. The merger completed the financial integration of that acquisition. These transactions were undertaken to improve borrowing capacity, optimize interest costs and permit greater operating flexibility.

During the year, James River made significant progress in expanding its presence in the European marketplace. In December 1987, the Company acquired a 50% interest in Kaysersberg, S.A. ("Kaysersberg"), a leading French manufacturer of hygienic products, for approximately \$262.5 million. In connection with this purchase, the Company granted a three-year put option to Ferruzzi Agricola Finanziaria S.p.A., an Italian company which controls the remaining 50% of Kaysersberg. The put option would require James River to purchase an additional 17% of Kaysersberg for 778 million French francs. Upon expiration of the unexercised put, James River has the option to purchase a controlling interest in Kaysersberg for 375 million French francs. With annual sales of approximately \$720 million at current exchange rates, Kaysersberg has operating facilities in France and Belgium and markets towel and tissue, personal care and health care products, and specialty packaging containers in France, Germany, Italy, Belgium, Luxembourg and the Netherlands.

The Company also acquired two specialty paper mills in England and a converting operation in Ireland during fiscal 1988. The total consideration for these purchases was approx-

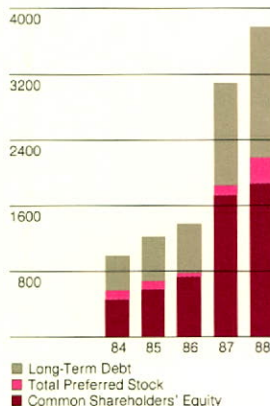
imately \$45 million in cash, funded primarily at the subsidiary level. In April 1988, James River completed the formation of a joint venture with Holmens Bruk AB, a Swedish concern. The joint venture, HJR Fiberweb AB, produces nonwoven products for distribution in Europe and has a current annual sales rate of approximately \$25 million.

In the United States, James River acquired the assets of Dunn Paper Company in May 1987 for approximately \$20 million in cash. Dunn, with sales of approximately \$75 million, has operations in Michigan and Mississippi which produce lightweight coated and uncoated specialty packaging and industrial papers. In February, James River sold its groundwood directory paper operations at Port Angeles, Washington for \$75 million in cash, after concluding that these operations did not fit the Company's long-term strategies. In addition, James River has signed a letter of intent under which a third party would lease its Hyde Park, Massachusetts mill with an option to purchase it in the future.

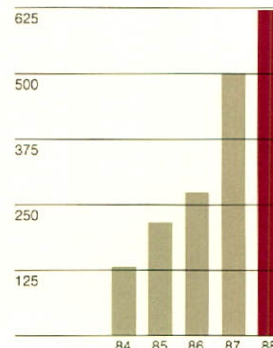
On June 3, 1988, the Company acquired the stock of Armstrong Rees Ederer, Inc., for approximately \$5 million in cash and 960,000 shares of James River common stock. This company, which operates as Ridgway Packaging, has operating facilities in California, Oregon, Washington and Idaho. With 1987 sales of approximately \$60 million, Ridgway Packaging manufactures folding cartons for food processors and other consumer goods manufacturers.

The Company's financial ratios have been relatively unchanged over the last two years. The Company's current ratio has remained close to 2:1 since the acquisition of Crown Zellerbach in 1986. Working capital of \$714 million at April 24, 1988 was comparable to April 1987 levels despite significant changes in component balances. Cash was reduced to a planned level of \$42.6 million from \$116.8 million, and the current portion of long-term debt increased from \$69.4 million to \$81.4 million due to scheduled maturities. Offsetting these reductions in working capital were increases in accounts receivable and inventory. The Company had no short-term borrowings outstanding at April 24, 1988. After financing a total of approximately \$960 million in internal expansions and acquisitions, the consolidated ratio of long-term

TOTAL CAPITALIZATION
(In Millions of Dollars)



CAPITAL EXPENDITURES
(In Millions of Dollars)



debt to total capitalization at April 24, 1988 was 39% compared to 38% in 1987 and 40% in 1986. This measure has been relatively stable as the Company continues to rely primarily on internally generated funds to finance its capital investments and to issue equity from time to time to manage its capital structure.

Capital expenditures increased to \$623 million from \$504 million in fiscal 1987 as James River proceeded with its capital program announced last year; however, capital spending levels may vary from year to year based on timing of individual projects.

The Company believes that its financial resources are adequate to support its capital needs. James River and its subsidiaries currently have revolving credit facilities which provide for borrowings of up to approximately \$875 million at competitive rates for general corporate purposes (see Note 8 of Notes to Consolidated Financial Statements). On April 24, 1988, approximately \$475 million was outstanding under those facilities and the commercial paper program. In addition, James River has agreements with several banks under which it may borrow, on a short-term basis, up to \$345 million at below prime rates. The Company's public debt ratings are investment grade, and Standard & Poor's raised James River's debt rating for its publicly rated debt from BBB to BBB+ on September 18, 1987. Under the most restrictive of James River's senior note agreements, the Company could borrow an additional \$680 million at April 24, 1988.

In general, the cash required to meet the Company's ongoing internal needs has been generated by its operating cash flow. The Company is in a capital intensive business, however, and will incur long-term debt or issue equity securities to fund major internal or acquisition-related expansion projects as it has in the past. The Company does not normally require short-term borrowings to support its business, although the timing of cash requirements may require the utilization of existing revolving credit facilities or bank lines of credit.

In June 1988, the Company increased its quarterly common stock cash dividend by 20 percent to \$.12 per share. This action represented the fifteenth dividend increase since the Company became publicly held in 1973 and the fourth increase in the

last five years. While the Company believes that it is in the best interest of its shareholders to retain most of its earnings for reinvestment, the present intention is to continue to increase common dividends commensurate with the growth in earnings and the strength of its financial position.

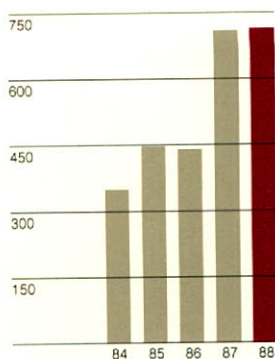
The Company has not yet fully implemented two major changes in accounting principles set forth by the Financial Accounting Standards Board. Full implementation of each of these pronouncements is not required until fiscal 1990. Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("SFAS 96"), issued in December 1987, requires the adoption of the liability method of accounting and reporting for income taxes no later than the beginning of fiscal 1990; however, earlier application is permitted. Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), requires the recognition of a liability in the amount of the Company's unfunded accumulated benefit obligation, with an equal amount to be recognized as either an intangible asset or a reduction of equity, net of applicable deferred income taxes, no later than fiscal 1990. See Notes 5 and 6, respectively, of Notes to Consolidated Financial Statements.

Effects of Changing Prices:

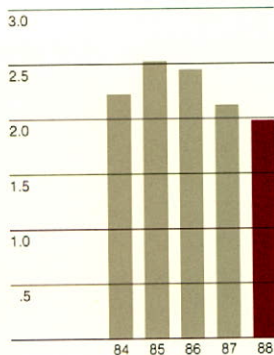
In the opinion of management, recognizing the effects of restating assets to reflect current costs would not have a material impact on reported earnings in fiscal 1988 or 1987. The Company utilizes the last-in, first-out inventory valuation method for substantially all finished goods and raw materials. This method generally matches the most current costs of manufactured goods to current revenues and thus tends to reflect the impact of inflation in cost of goods sold. Furthermore, as a result of the Company's capital program and acquisitions, nearly \$1.5 billion of the Company's fixed assets were recorded at amounts equivalent to fair market values or current cost during fiscal 1987 and \$.7 billion was added in fiscal 1988. Accordingly, the Company believes that the increase in depreciation expense which would result from restating fixed assets to current cost would not be material.

WORKING CAPITAL

(In Millions of Dollars)

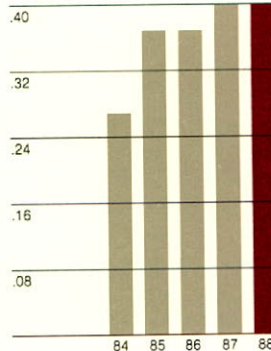


CURRENT RATIO



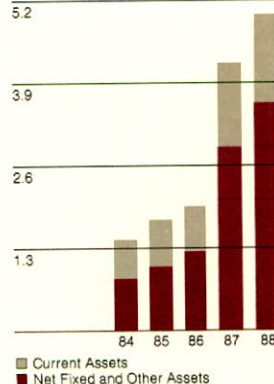
COMMON STOCK CASH DIVIDENDS PER SHARE

(In Dollars)



TOTAL ASSETS

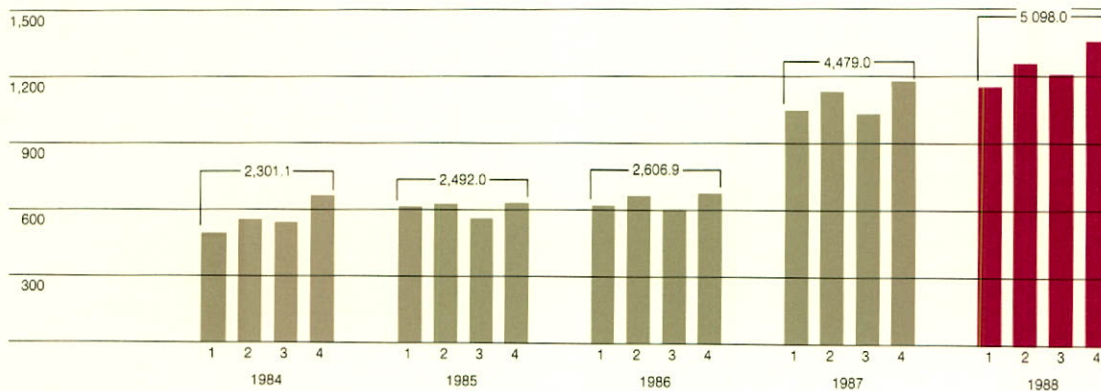
(In Billions of Dollars)



Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

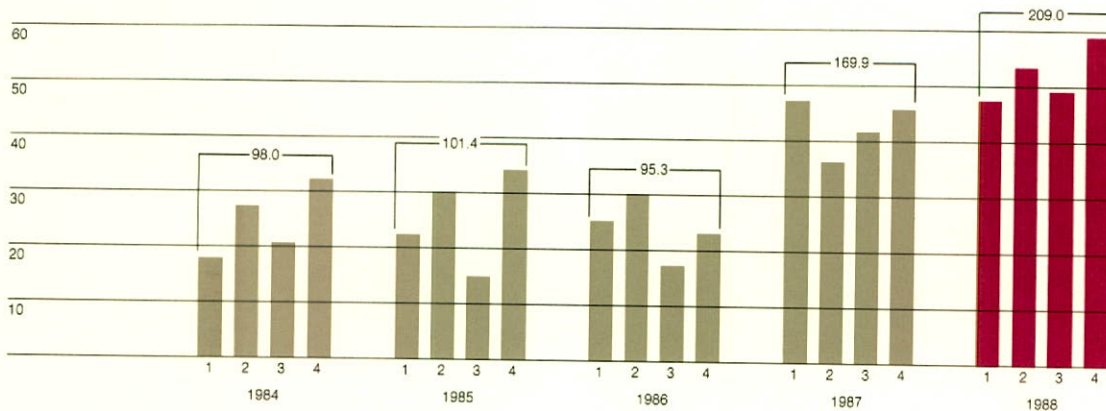
NET SALES

(In Millions of Dollars)



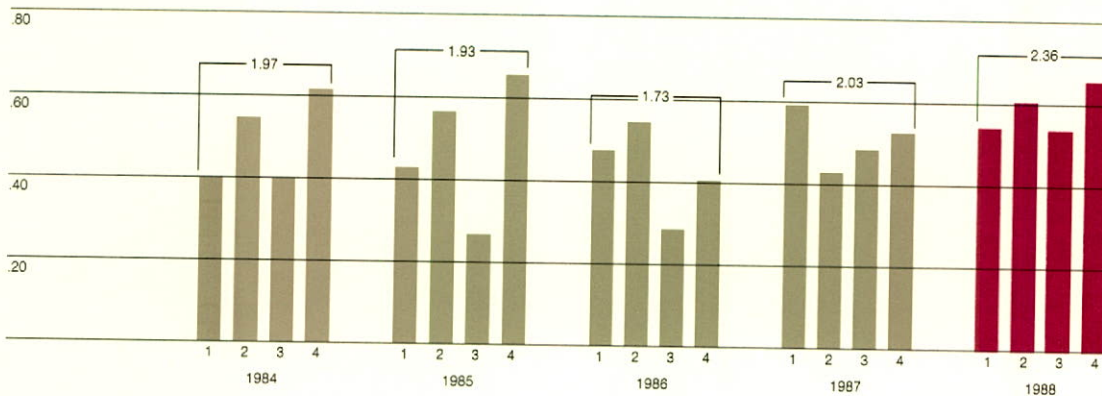
INCOME

(In Millions of Dollars)



FULLY DILUTED EARNINGS PER SHARE

(In Dollars)

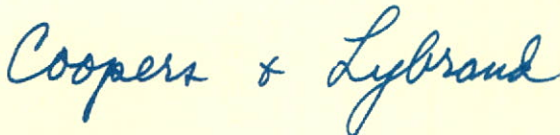


Report of Independent Certified Public Accountants

The Board of Directors and Shareholders
James River Corporation of Virginia:

We have examined the consolidated balance sheet of James River Corporation of Virginia and Subsidiaries as of April 24, 1988 and April 26, 1987, and the related consolidated statements of income, cash flows and changes in capital accounts for each of the fiscal years in the three year period ended April 24, 1988. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of James River Corporation of Virginia and Subsidiaries as of April 24, 1988 and April 26, 1987, and the consolidated results of operations and cash flows for each of the fiscal years in the three year period ended April 24, 1988, in conformity with generally accepted accounting principles applied on a consistent basis.

A handwritten signature in blue ink that reads "Coopers & Lybrand". The signature is written in a cursive, flowing style.

Suite 1000
Seventh and Franklin Building
Richmond, Virginia 23219
May 19, 1988

Consolidated Statement of Income

James River Corporation of Virginia and Subsidiaries

For the fiscal years ended April 24, 1988,
April 26, 1987 and April 27, 1986

	1988 (52 weeks)	1987 (52 weeks)	1986 (52 weeks)
<i>(in thousands, except per share data)</i>			
Revenues:			
Net sales	\$5,097,978	\$4,479,001	\$2,606,950
Other income	56,025	59,982	9,057
Total revenues	5,154,003	4,538,983	2,616,007
Costs and expenses:			
Cost of goods sold	3,909,402	3,404,032	1,964,910
Selling and administrative expenses	751,556	667,106	456,772
Interest	115,527	111,564	44,281
Total costs and expenses	4,776,485	4,182,702	2,465,963
Income before income tax expense	377,518	356,281	150,044
Income tax expense	168,508	186,417	54,756
Net income	\$ 209,010	\$ 169,864	\$ 95,288
Net income per common share and common share equivalent:			
Primary	\$2.36	\$2.03	\$1.77
Fully diluted	\$2.36	\$2.03	\$1.73
Weighted-average number of common shares and common share equivalents:			
Primary	82,256	81,821	49,523
Fully diluted	82,272	81,838	51,525

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

James River Corporation of Virginia and Subsidiaries

	April 24, 1988 and April 26, 1987	
(in thousands, except share data)	1988	1987
ASSETS		
Current assets:		
Cash and short-term securities	\$ 42,636	\$ 116,764
Accounts and notes receivable	532,922	439,784
Inventories	802,047	713,690
Prepaid expenses	66,309	72,876
Total current assets	1,443,914	1,343,114
Property, plant and equipment:		
Land	55,106	55,756
Buildings	359,387	306,415
Machinery and equipment	2,582,923	2,266,361
Construction in progress	447,931	275,242
	3,445,347	2,903,774
Less accumulated depreciation	572,181	425,711
	2,873,166	2,478,063
Timber and timberlands, net	62,572	51,500
Net property, plant and equipment	2,935,738	2,529,563
Deferred charges and other assets	132,112	97,083
Investment in affiliate	269,333	
Goodwill	224,620	240,712
	<u>\$5,005,717</u>	<u>\$4,210,472</u>
LIABILITIES AND CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 618,591	\$ 546,548
Income taxes payable	6,763	9,463
Deferred income taxes	23,347	5,838
Long-term debt, current portion	81,413	69,438
Total current liabilities	730,114	631,287
Long-term debt	1,622,990	1,280,428
Deferred retirement and other liabilities	95,588	172,589
Deferred income taxes	366,785	266,147
Minority interests	7,845	5,925
Preferred stock, at liquidation value:		
Redeemable preferred stock	4,918	6,898
Non-redeemable preferred stock	300,000	100,000
Common stock, \$.10 par value; shares outstanding, 1988-81,193,394 and 1987-82,353,560	8,119	8,235
Additional paid-in capital	1,229,507	1,260,720
Retained earnings	639,851	478,243
	<u>\$5,005,717</u>	<u>\$4,210,472</u>

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

James River Corporation of Virginia and Subsidiaries

For the fiscal years ended April 24, 1988,
April 26, 1987 and April 27, 1986

<i>(in thousands)</i>	1988 (52 weeks)	1987 (52 weeks)	1986 (52 weeks)
<i>Cash provided by (used for) operating activities</i>			
Net income	\$209,010	\$169,864	\$ 95,288
Items not affecting cash:			
Depreciation and cost of timber harvested	201,960	162,606	81,739
Deferred income tax provision	145,102	84,952	50,445
Amortization and other	(56,287)	21,417	10,180
Change in current assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(76,175)	62,569	(4,434)
Inventories	(69,881)	(68,521)	14,825
Prepaid expenses and other current assets	8,435	4,186	13,206
Accounts payable and accrued liabilities	25,930	(137,874)	7,204
Income taxes payable	(5,972)	(14,871)	(3,708)
Other, net	(57,854)	(1,919)	(6,138)
Cash provided by operating activities	<u>324,268</u>	<u>282,409</u>	<u>258,607</u>
<i>Cash provided by (used for) investing activities</i>			
Expenditures for property, plant and equipment	(623,079)	(508,973)	(281,058)
Cash received from sale of facilities	75,000	239,170	4,906
Cash received in (paid for) acquisitions	(61,682)	119,899	(20,129)
Investment in unconsolidated affiliate	(269,019)		
Sales of property, plant and equipment	12,903	5,204	1,586
Collection of notes receivable	28,840	12,313	
Other, net	(28,292)		
Cash used for investing activities	<u>(865,329)</u>	<u>(132,387)</u>	<u>(294,695)</u>
<i>Cash provided by (used for) financing activities</i>			
Conversion and redemption of preferred stock	(1,980)	(1,981)	(76,545)
Additions to long-term debt	436,665	40,464	207,919
Payments of long-term debt	(85,059)	(169,210)	(66,038)
Preferred stock issued	200,000	100,000	
Common stock issued on exercise of stock options	1,012	2,437	586
Stock issuance costs	(4,850)	(7,413)	(141)
Repurchase of common stock	(28,426)		
Common and preferred stock cash dividends paid	(45,565)	(33,037)	(25,535)
Cash provided by (used for) financing activities	<u>471,797</u>	<u>(68,740)</u>	<u>40,246</u>
Effect of exchange rate changes on cash	(4,864)	(643)	(123)
Increase (decrease) in cash and short-term securities	(74,128)	80,639	4,035
Cash and short-term securities, beginning of year	116,764	36,125	32,090
Cash and short-term securities, end of year	<u>\$ 42,636</u>	<u>\$116,764</u>	<u>\$ 36,125</u>

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Capital Accounts

James River Corporation of Virginia and Subsidiaries

(in thousands)	For the fiscal years ended April 24, 1988, April 26, 1987 and April 27, 1986		
	1988	1987	1986
Redeemable Preferred Stock			
Balance at beginning of fiscal year	\$6,898	\$8,879	\$96,838
Conversion of Series I Preferred Stock			(11,414)
Redemption of Series H Preferred Stock			(76,000)
Preferred stock sinking fund requirements	(1,980)	(1,981)	(545)
Balance at end of fiscal year	<u>\$4,918</u>	<u>\$6,898</u>	<u>\$ 8,879</u>
Non-Redeemable Preferred Stock			
Balance at beginning of fiscal year	\$100,000		
Issuance of Series K Preferred Stock		\$100,000	
Issuance of Series L Preferred Stock	200,000		
Balance at end of fiscal year	<u>\$300,000</u>	<u>\$100,000</u>	
Common Shareholders' Equity			
Common Stock:			
Balance at beginning of fiscal year	\$ 8,235	\$ 5,167	\$ 2,905
Issuances of common stock in connection with acquisitions		3,048	58
Conversion of subordinated notes			433
Conversion of Series I Preferred Stock			38
Exercise of stock options and awards	21	20	11
Three-for-two stock split			1,722
Common shares repurchased	(137)		
Balance at end of fiscal year	<u>8,119</u>	<u>8,235</u>	<u>5,167</u>
Additional Paid-In Capital:			
Balance at beginning of fiscal year	1,260,720	399,695	309,788
Issuances of common stock in connection with acquisitions		864,920	20,647
Conversion of subordinated notes			57,318
Conversion of Series I Preferred Stock			11,376
Exercise of stock options and awards	2,036	3,435	785
Three-for-two stock split			(1,722)
Common shares repurchased	(28,289)		
Stock issue costs and other	(4,960)	(7,330)	1,503
Balance at end of fiscal year	<u>1,229,507</u>	<u>1,260,720</u>	<u>399,695</u>
Retained Earnings:			
Balance at beginning of fiscal year	478,243	339,342	269,133
Net income	209,010	169,864	95,288
Common stock cash dividends declared	(32,724)	(32,472)	(18,369)
Preferred stock cash dividends declared	(14,370)	(3,941)	(7,544)
Foreign currency translation and other	(308)	5,450	834
Balance at end of fiscal year	<u>639,851</u>	<u>478,243</u>	<u>339,342</u>
Common Shareholders' Equity at End of Fiscal Year	<u>\$1,877,477</u>	<u>\$1,747,198</u>	<u>\$744,204</u>

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

James River Corporation of Virginia and Subsidiaries

Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements present the operating results and the financial position of James River Corporation of Virginia and all material majority owned domestic and foreign subsidiaries ("James River" or the "Company"). All significant intercompany balances and transactions are eliminated in consolidation. Minority interests represent minority owners' proportionate share of the equity in certain of the Company's consolidated subsidiaries. Investments in unconsolidated affiliates which are at least 20% owned are stated at cost plus the Company's share of undistributed earnings.

Fiscal Year

The Company's fiscal year ends on the last Sunday in April, which results in a 52- or 53-week year. Fiscal 1988, 1987 and 1986 each consists of 52 weeks.

Cash and Short-Term Securities

The Company invests excess cash balances in short-term securities, including time deposits, bank repurchase agreements and commercial paper, whose maturities are generally less than three months.

Inventories

Inventories are stated at the lower of cost or market and include the cost of materials, labor and manufacturing overhead. The Company utilizes the last-in, first-out ("LIFO") cost flow assumption for valuing substantially all finished goods and raw materials of domestic operations. Supplies and inventories of foreign operations are valued at first-in, first-out ("FIFO") or average cost.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Amounts expended for improvements to increase the useful life or replace major units of property are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Property, plant and equipment acquired as a result of certain acquisitions is depreciated utilizing composite depreciation methods; accordingly, no gain or loss is recognized on partial sales or retirements of these assets. Gains or losses on the retirement of all other property are included in income. Depreciation for financial reporting purposes is computed using the straight-line method based on the estimated useful lives of the respective assets. Estimated lives generally range from 20 to 45 years for buildings and 12 to 20 years for machinery and equipment. Depreciation for tax purposes is calculated using accelerated methods.

Timber and timberlands are stated at cost less accumulated cost of timber harvested. Cost of timber harvested is recorded

as timber is cut and at rates determined annually based on the relationship of unamortized timber costs to the estimated volume of recoverable timber.

Intangible Assets

The excess of the purchase price over the fair value of identifiable net assets of acquired companies is allocated to goodwill and is amortized using the straight-line method over 40 years.

Capitalized Interest

The cost of constructing certain long-lived assets includes capitalized interest costs which are depreciated over the estimated useful lives of the related assets. Total interest costs incurred and amounts capitalized were as follows:

(in thousands)	1988	1987	1986
Total interest costs	\$137,690	\$129,312	\$61,554
Interest capitalized	(22,163)	(17,748)	(17,273)
Net interest expense	\$115,527	\$111,564	\$44,281

Interest paid during fiscal 1988, 1987 and 1986 totaled \$138.1 million, \$121.1 million and \$61.5 million, respectively.

Research and Development

Research and development costs are expensed as incurred. During fiscal 1988, 1987 and 1986, direct and readily identifiable indirect research and development costs approximated \$45.4 million, \$36.9 million and \$25.1 million, respectively.

Income Taxes

Income taxes are computed on the basis of financial statement income. Deferred income taxes are recorded for differences in the timing of recognition of income, expenses and credits between financial and tax reporting, and arise principally from the use of alternative methods for computing depreciation. The Company accounts for investment and other tax credits on the flow-through method, whereby the provision for income taxes is reduced to reflect credits when realized.

Net Income Per Common Share and Common Share Equivalent

Net income per common share is computed based on the income applicable to common stock (net income after preferred stock dividend requirements and discount accretion) and the weighted-average number of common shares and common share equivalents outstanding during the respective periods. The computation of primary income per common share assumes the issuance of common shares on the exercise of dilutive stock options and awards, net of the assumed repurchase of James River common stock from the proceeds of such exercises, at the average market price during the period. The computation of fully diluted income per common share is performed using

the same method as for the primary computation, except that (i) the assumed repurchase of common shares from the proceeds of the exercise of dilutive stock options and awards is based on the period-end market price, if higher than the average market price, and (ii) if dilutive, the conversions of the outstanding Series K \$3.375 Cumulative Convertible Exchangeable Preferred Stock ("Series K") and the Series L \$14.00 Cumulative Convertible Exchangeable Preferred Stock ("Series L") are also assumed. Neither the assumed conversion of the Series K nor that of the Series L has been dilutive since its respective issuance.

Per share earnings and the accompanying Notes to Consolidated Financial Statements reflect all stock splits, the latest of which was effected June 23, 1986.

Reclassifications and Restatements

Certain amounts in the fiscal 1987 and fiscal 1986 financial statements and supporting footnote disclosures have been reclassified to conform to the fiscal 1988 presentation.

In November 1987, Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," was issued. The new pronouncement requires that a statement of cash flows be presented in place of a statement of changes in financial position. The Company has adopted the standard for fiscal 1988 and has restated prior years for comparative purposes.

Note 2

Acquisitions, Dispositions and Related Transactions

FISCAL 1988

Dunn Paper Company

On May 18, 1987, James River completed the purchase of Dunn Paper Company ("Dunn"), a producer of specialty packaging and industrial papers. For an aggregate consideration of approximately \$20.3 million, James River purchased all of the assets of Dunn, other than those subject to a separate four-year lease agreement. Additionally, Dunn is entitled to receive five annual payments beginning in fiscal 1989, which payments are contingent on the earnings of the purchased assets. Dunn has current annual sales of approximately \$75 million.

Kaysersberg, S.A.

On December 14, 1987, James River completed the purchase of a 50% interest in Kaysersberg, S.A. ("Kaysersberg"), a leading French producer of sanitary papers, for approximately \$262.5 million. Kaysersberg, with operating facilities in France and Belgium and annual sales of approximately 4.0 billion French francs (approximately \$720 million based on current exchange rates), manufactures and markets a broad line of towel

and tissue, personal care and health care products in France, Germany, Italy, Belgium, Luxembourg and the Netherlands. The investment in Kaysersberg is currently being accounted for by the equity method and is stated at cost plus the Company's share of undistributed earnings and foreign currency translation adjustments from the acquisition date through March 31, 1988. In a related transaction, James River has granted Ferruzzi Agricola Finanziaria S.p.A., an Italian company which controls the remaining 50% of Kaysersberg, a three-year put option which would require James River to purchase an additional 17% of Kaysersberg for 778 million French francs. Upon expiration of the unexercised put option, James River has the option to purchase a controlling interest in Kaysersberg for 375 million French francs. A subsequent approval of the French government would be required on the exercise of either of these options.

HJR Fiberweb AB

Effective January 1, 1988, James River and Holmens Bruk AB formed HJR Fiberweb AB ("Fiberweb"), a jointly owned Swedish company. Fiberweb owns and operates a nonwovens production facility with an annual sales rate of approximately \$25 million.

Wiggins Teape Mills

On January 4, 1988, James River completed the purchase of two specialty paper mills located in the United Kingdom from the Wiggins Teape Group, for a purchase price of approximately \$43 million. The acquired assets include Wiggins Teape's Chartham and Glory mills which produce engineering office products and coated base papers for photographic markets, respectively, and had combined annual sales of approximately \$100 million in 1987.

Port Angeles Mill

On February 17, 1988, James River completed the sale of its Port Angeles, Washington pulp and paper mill to Daishowa America Co., Ltd. for approximately \$75 million in cash. The Port Angeles operations, which were acquired as part of Crown Zellerbach Corporation in May 1986 and which produce groundwood paper for the directory paper market, had sales of approximately \$70 million in fiscal 1987.

FISCAL 1987

Crown Zellerbach Corporation

Effective May 5, 1986, James River issued approximately 27.1 million shares of James River common stock in exchange for approximately 95% of the outstanding common stock of Crown Zellerbach Corporation ("Crown") pursuant to simultaneous exchange offers by James River and by Crown for Crown common shares. In October 1986, the Company issued an additional 1.5 million James River common shares in exchange for all of the remaining outstanding Crown common stock, not

Notes to Consolidated Financial Statements (continued)

already held by James River. The Crown operations acquired by James River include its pulp, papermaking and flexible packaging operations; other operations, including Crown's timber and wood products segment and its container segment were split off as a result of the Crown exchange offer. The acquisition of Crown was accounted for as a purchase. On April 23, 1988, Crown was merged into James River; subsequent to the merger, the assets and liabilities (other than long-term debt) of Crown were transferred to a newly-formed subsidiary, James River II, Inc.

Crown Distribution Businesses

On September 3, 1986, Crown's Distribution business was sold to The Mead Corporation for approximately \$250 million in cash. The results of operations of this business for the period from its acquisition on May 5, 1986 to its sale on September 3, 1986 have been reflected in other income. Additionally, effective October 26, 1986, Crown's newsprint sales business was sold for an aggregate sales price equal to its net book value plus the settlement of certain advances.

Canada Cup, Inc.

On May 12, 1986, James River acquired all of the outstanding stock of Canada Cup, Inc. ("Canada Cup"), a leading Canadian manufacturer of plastic and paper food and beverage service products. Canada Cup had an annual sales rate of approximately \$40 million at the date of acquisition. The acquisition of Canada Cup's stock for an aggregate consideration of approximately \$17.5 million was accounted for as a purchase.

Handi-Kup

On June 24, 1986, James River acquired Fiberplastics, Inc. ("Handi-Kup"), a producer of foam cups and containers with annual sales of approximately \$66 million in 1985. The acquisition was effected through the exchange of approximately 1.1 million James River common shares for all of the outstanding shares of Handi-Kup. The merger was accounted for as a pooling of interests and, accordingly, the Company's consolidated results of operations include those of Handi-Kup from April 28, 1986. James River's financial statements for prior years have not been restated because the effect is not material.

Specialty Papers Company

On December 15, 1986, James River purchased all of the outstanding common stock of The Specialty Papers Company ("Specialty"), a flexible packaging manufacturer with 1986 annual sales of approximately \$65 million. The acquisition was effected through a merger whereby approximately 700,000 James River common shares were issued at a rate of two James River shares for each outstanding Specialty common share.

Amarin Plastics, Inc.

In a purchase transaction consummated on December 22, 1986, James River acquired substantially all of the assets of Amarin Plastics, Inc., a manufacturer of plastic disposable cutlery and other plastic products.

FISCAL 1986

In September 1985, James River purchased the assets of Monsanto Company's Cerex® nonwovens business ("Cerex"), and in January 1986, the Company purchased the assets of the Preco Corporation's Premoid Group ("Premoid") which produces specialty and communication papers. Cerex and Premoid have been included in James River's consolidated results of operations from their respective acquisition dates.

SUMMARY

The purchase prices of acquisitions accounted for as purchase transactions were allocated to the acquired assets based on their respective fair values. Total consideration and its allocation are subject to adjustment resulting from refinements in the application of purchase method accounting. Businesses acquired in purchase transactions are summarized as follows:

(in thousands)	1988	1987	1986
Fair value of assets acquired	\$(77,752)	\$(2,191,124)	\$(44,013)
Liabilities assumed or created	13,770	1,300,561	3,383
Common stock issued		864,827	20,500
Cash paid for acquisitions	(63,982)	(25,736)	(20,130)
Cash acquired	2,300	145,635	1
Net cash received in (paid for) acquisitions	\$(61,682)	\$ 119,899	\$(20,129)

Note 3

Foreign Currency

Translation

Accounts of foreign operations are maintained in the currencies of the countries in which they operate. Financial statements of foreign subsidiaries are translated into U.S. dollars at period-end exchange rates as to assets and liabilities and weighted-average exchange rates for the year as to revenues and expenses. Unrealized gains or losses on such translations are included in retained earnings as foreign currency translation adjustments. The cumulative translation adjustments at the end of fiscal 1988 and 1987 were not material.

Hedging Transactions

In fiscal 1986, James River entered into a £8 million combined interest rate and currency swap agreement which extends through 1993, as a hedge of the Company's investment in a foreign subsidiary.

At April 24, 1988 and April 26, 1987, James River had \$63.7 million and \$94.5 million, respectively, of outstanding notes payable denominated in Swiss francs. These notes are fully hedged and, accordingly, the Company will recognize no foreign currency gains or losses on payment of this debt.

Note 4

Other Income

Other income includes items which are nonrecurring and, as a result, fluctuates from period to period. Components of other income were as follows:

(in thousands)	1988	1987	1986
Interest income	\$ 5,488	\$ 8,426	\$ 1,267
Equity in net income (loss) of unconsolidated affiliates	4,690	(562)	(694)
Asset disposals and write-downs	16,556		
Involuntary conversion	10,255		
Energy properties lease	7,675	10,462	
Fees from transition service and other agreements	4,000	21,264	
Crown Distribution business		6,432	
Contract settlements		5,793	
Other	7,361	8,167	8,484
Total other income	\$56,025	\$59,982	\$9,057

The net gain on asset disposals and write-downs resulted from the sale of certain assets of the Port Angeles, Washington pulp and paper mill, partially offset by charges related to the Company's Hyde Park, Massachusetts mill idled in December 1987. In June 1987, the Company suffered significant property damage to a recovery boiler located at its Old Town, Maine pulp mill; the gain on the involuntary conversion represents the excess of the property insurance settlement over the net book value of the damaged equipment. As a result of the acquisition of Crown in May 1986, James River or Crown and certain of the businesses which were split off from Crown entered into several lease, service and supply agreements. Revenues recognized pursuant to certain of these agreements, whose terms extended

up to two years from the acquisition date, have been classified as other income. Additionally, Crown entered into an 18-month lease of its oil and gas properties with one of the split off companies. These properties were sold in November 1987 pursuant to a purchase option contained in the lease; no gain was recognized on the sale. Net revenues and expenses related to Crown's Distribution business were included in other income for the period from its acquisition on May 5, 1986 to its sale on September 3, 1986.

Note 5

Income Taxes

The components of income before income tax expense were as follows:

(in thousands)	1988	1987	1986
Domestic	\$343,879	\$338,527	\$153,114
Foreign	33,639	17,754	(3,070)
Income before income taxes	\$377,518	\$356,281	\$150,044

Income tax expense was comprised of:

(in thousands)	1988	1987	1986
Current:			
Federal	\$ 16,785	\$ 75,495	\$ (46)
State	4,070	24,004	3,472
Foreign	2,551	1,966	885
Total current provision	23,406	101,465	4,311
Deferred:			
Federal	113,959	75,937	44,756
State	22,594	4,409	7,616
Foreign	8,549	4,606	(1,927)
Total deferred provision	145,102	84,952	50,445
Total taxes on income	\$168,508	\$186,417	\$54,756

Income tax expense has been reduced by U.S. and foreign investment tax credits of \$3.5 million, \$19.2 million and \$19.6 million in fiscal 1988, 1987 and 1986, respectively. The Company does not accrue federal income taxes on the undistributed earnings of certain foreign subsidiaries which have been, or are intended to be, indefinitely reinvested. The cumulative amounts of such earnings were approximately \$30.1 million, \$12.3 million and \$4.9 million at the end of fiscal 1988, 1987 and 1986, respectively.

Notes to Consolidated Financial Statements (continued)

Income tax expense varied from the amount computed by applying the statutory federal rate to income before income taxes. The reasons for this difference were as follows:

	Percent of Pretax Income		
	1988	1987	1986
Federal statutory tax rate	36.0%	46.0%	46.0%
Increases (decreases) in taxes resulting from:			
Investment tax credits	(.9)	(5.4)	(13.1)
State income taxes, net of federal income tax benefit	4.4	4.3	4.0
Excess of book over tax basis of acquired fixed assets	4.0	3.5	
Other items, net	1.1	3.9	(.4)
Actual income tax rate	44.6%	52.3%	36.5%

Cash payments for income taxes totaled approximately \$35.6 million in fiscal 1988, \$24.7 million in fiscal 1987 and \$6.6 million in fiscal 1986.

Deferred income tax expense results from timing differences in the recognition of revenues, expenses and credits for tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

(in thousands)	1988	1987	1986
Accelerated tax depreciation	\$ 94,655	\$110,024	\$60,073
Capitalization of interest	7,654	401	7,186
Employee benefit plans	29,349	(9,914)	5,274
Investment tax credits	(2,717)	(18,705)	(14,544)
Investment tax credit basis reduction	1,408	15,823	
Stock appreciation rights	7,140	(4,736)	(4,451)
Other items, net	7,613	(7,941)	(3,093)
Total deferred provision	\$145,102	\$ 84,952	\$50,445

The Tax Reform Act of 1986 (the "Tax Act") was enacted in October 1986. Among the major provisions of the Tax Act were the repeal of investment tax credits and an increase in the investment tax credit basis reduction both retroactive to January 1, 1986, and the phased-in reduction of corporate tax rates from 46% to 36% in fiscal 1988 and to 34% in fiscal 1989. Fiscal 1987 income tax expense included a \$5.3 million charge representing the reversal of investment tax credit benefits which were recognized in fiscal 1986.

As of April 24, 1988, for federal tax purposes the Company had approximately \$83.8 million of investment tax credit carryforwards expiring from 1998 through 2003 and \$17.6 million of other tax credit carryforwards expiring from 1991 through 2003. Investment tax and other credit carryforwards of \$39.4 million have been recognized in income for financial reporting

purposes as reductions of deferred income taxes. The remaining \$62.0 million of such credits, arising principally as a result of acquisitions, will be recorded as a reduction of goodwill when realized. As a result of the Tax Act, investment tax credit carryforwards are subject to a reduction of 35% to the extent utilized after fiscal 1988. In addition, the Company has a net operating loss carryforward of \$8.4 million expiring in 2003 and alternative minimum tax ("AMT") credit carryforwards of \$35.5 million. AMT credits may be carried forward indefinitely to reduce regular taxes payable in years that regular taxes payable exceed the AMT payable.

Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("SFAS 96"), issued in December 1987, requires the adoption of the liability method of accounting and reporting for income taxes no later than fiscal 1990. The Company has not completed the complex analyses required to estimate the impact of SFAS 96, and the timing of adoption has not been determined. Due to the widely divergent impact on the accounting for prior business combinations resulting from the selection of alternative effective adoption dates, the Company is unable to quantify the probable effect of SFAS 96. However, adoption of SFAS 96 will have no adverse effect on total capitalization of the Company and will have no impact on cash flow.

Note 6

Retirement Plans

Defined Benefit Pension Plans

The Company has a number of pension plans covering substantially all employees. These include plans which are administered by the Company, as well as union-administered multiemployer plans. James River's plan covering salaried employees is contributory and provides pension benefits based upon the employee's career-average compensation and years of service. Salaried employees are eligible to participate in the plan upon the completion of six months of service. Employee contributions are determined as .75% of each covered employee's earnings up to the Social Security taxable wage base, and 1.4% of earnings in excess thereof. Plans covering hourly employees (including multiemployer plans) are generally noncontributory and provide pension benefits based on stated amounts for each year of service. Employees covered under hourly plans are eligible to participate upon the completion of up to one year of service. Employees become fully vested in the Company-administered plans upon the completion of ten years of service. The funding policy for all Company-administered plans is to make at least the mini-

imum annual contributions required by the Employee Retirement Income Security Act of 1974. Contributions to multi-employer plans are generally based on fixed rates as set forth in negotiated labor contracts.

The components of net periodic pension cost in fiscal 1988 and 1987 were as follows:

<i>(in thousands)</i>	1988	1987
Service cost—benefits earned during the year	\$23,462	\$20,655
Interest accrued on projected benefit obligation	74,202	69,209
Return on plan assets:		
Actual	\$(11,352)	\$(126,804)
Deferred	(78,522) (89,874)	40,984 (85,820)
Net amortization and deferral	946	(1,759)
	8,736	2,285
Contributions to multiemployer pension plans	5,865	5,818
Total net pension cost . . .	\$14,601	\$ 8,103

Net amortization and deferral consists of amortization of the net asset existing at the date of initial application of Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions," ("SFAS 87") in fiscal 1986, and deferral and amortization of subsequent net gains and losses.

Pension expense and plan obligations are calculated using assumptions that are estimates of factors that will determine, among other things, the amount and timing of future benefit payments. Weighted-average rate assumptions used in determining the fiscal 1988 and fiscal 1987 net pension cost were as follows:

	1988	1987
Discount rate	8.0%	8.7%
Rate of increase in future compensation levels	6.0%	6.7%
Long-term rate of return on plan assets	10.0%	10.7%

The following table sets forth the funded status of Company-administered plans and the amounts recognized in the Company's balance sheet at April 24, 1988 and April 26, 1987, based on valuations as of January 31, 1988 and January 31, 1987, respectively. Benefit obligations at January 31, 1988 were determined using an assumed discount rate of 8.0% and an assumed rate of increase in future compensation levels of 6.0%.

<i>(in thousands)</i>	April 24, 1988		April 26, 1987	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of projected benefit obligation, based on employment service to date and current salary levels:				
Vested benefits	\$(526,334)	\$(359,270)	\$(617,394)	\$(216,848)
Nonvested benefits	(38,092)	(23,595)	(47,902)	(19,021)
Accumulated benefit obligation	(564,426)	(382,865)	(665,296)	(235,869)
Additional amounts related to projected salary increases	(265)	(29,580)	(23,814)	(526)
Projected benefit obligation	(564,691)	(412,445)	(689,110)	(236,395)
Plan assets at fair value (primarily equity securities, corporate bonds and short-term investments)	596,005	313,349	752,829	162,644
Plan assets in excess of (less than) projected benefit obligation	31,314	(99,096)	63,719	(73,751)
Unrecognized net loss from past experience different from that assumed	49,226	78,549	7,199	43,469
Prior service cost not yet recognized	2,276	21,525	4,231	3,945
Unrecognized net asset at April 29, 1985, being recognized over 15 to 19 years	(2,403)	(31,085)	(28,578)	(7,705)
Net pension asset (liability) recognized in the consolidated balance sheet	\$ 80,413	\$ (30,107)	\$ 46,571	\$ (34,042)

Notes to Consolidated Financial Statements (continued)

SFAS 87 requires the recognition of a liability in the amount of the Company's unfunded accumulated benefit obligation, with an equal amount to be recognized as either an intangible asset or a reduction of equity, net of applicable deferred income taxes, no later than fiscal 1990. James River intends to adopt these provisions of SFAS 87 when so required. Based on actuarial and plan asset information as of January 1988, James River would be required to record an additional liability of approximately \$39.4 million. The actual impact upon adoption will depend upon the funded status of the Company's pension plans at that date. The adoption of these provisions will have no impact on net income or cash flow.

Retiree Health Care and Life Insurance Benefits

The Company provides certain health care and life insurance benefits to retired employees. Substantially all employees may become eligible for such benefits if they retire under the provisions of the Company's retirement plans. The cost of such retiree benefits is recognized as expense as claims and premiums are incurred, except for costs associated with benefits for retirees of certain acquired operations which have been accrued in accordance with purchase method accounting. The cost of providing these benefits for approximately 13,900 retirees is not separable from the cost of providing benefits for the 34,000 active employees. The costs for both active and retired employees approximated \$74.9 million in fiscal 1988, \$75.1 million in fiscal 1987 and \$51.8 million in fiscal 1986.

Note 8

Long-Term Debt and Additional Credit Facilities

Long-term debt, exclusive of current installments, consisted of:

(in thousands)	1988	1987
Senior:		
Commercial paper and revolving credit borrowings	\$ 475,787	\$ 269,192
Unsecured notes:		
7.8% average interest rate term loans, payable to 2014	60,268	60,671
8.1% term loan, payable in annual installments to 1990	86,235	112,857
8.3% term loan, payable in annual installments to 1994	53,255	62,171
8.6% Swiss franc note, payable in 1992	61,142	63,631
8.8% term loan, payable in annual installments from 1992 to 1994	80,000	80,000
8.88% debentures, payable in annual installments from 1991 to 2000	53,875	53,875
9.0% debentures, payable in annual installments from 1991 to 2005	50,347	57,072
9.05% term loan, payable in 1993	90,000	
9.25% term loan, payable in annual installments from 1991 to 2001	80,000	80,000
9.5% term loan, payable in 1995	56,000	
9.75% term loan, payable from 1996 to 1998	54,000	
10.7% average interest rate term loans, payable to 2011	74,371	79,494
12.25% term loan, payable in annual installments from 1989 to 1998	55,000	55,000
12.6% notes, payable in 1995	74,659	74,631
16.25% term loan, payable in annual installments to 1995	80,000	100,000
Revenue bonds, average interest rate 9.5% with varying payments to 2009	77,779	82,560
Collateralized loans, average interest rate 9.2% with varying payments to 2005	55,607	44,499
Total senior debt	1,618,325	1,275,653
Subordinated	4,665	4,775
Total long-term debt	\$1,622,990	\$1,280,428

Note 7

Supplemental Balance Sheet Information

Short-Term Securities

Short-term securities with a cost, which approximates market, of \$31.8 million at April 24, 1988 and \$112.3 million at April 26, 1987 consisted primarily of U.S. Treasury Bill repurchase agreements with domestic banks and time deposits with certain foreign banks.

Accounts Payable and Accrued Liabilities

(in thousands)	1988	1987
Accounts payable	\$291,811	\$228,646
Accrued liabilities:		
Payroll and incentive compensation	132,937	130,621
Acquisition-related accruals	19,921	38,734
Advertising and promotion	42,910	35,926
Other	131,012	112,621
Total accounts payable and accrued liabilities	\$618,591	\$546,548

Acquisition-related accruals include amounts recorded in accordance with purchase method accounting primarily with respect to (i) the closure of certain duplicative operations of acquired companies and the consolidation of services, (ii) estimated environmental costs and (iii) the planned demolition of certain inactive facilities.

Minimum principal payments on all long-term debt for the five fiscal years subsequent to April 24, 1988 are as follows:

(in millions)	1989	1990	1991	1992	1993
Scheduled maturities	<u>\$81.4</u>	<u>\$107.8</u>	<u>\$127.9</u>	<u>\$154.7</u>	<u>\$181.3</u>

Assuming the commercial paper and revolving credit borrowings at current levels are outstanding throughout this five year period, an additional \$475 million of payments would be required in fiscal 1993 on the expiration of the revolving credit agreements. It is the Company's current intention, however, to extend maturities by refinancing or renewing the revolving credit agreements upon their maturities.

Commercial Paper and Revolving Credit Facilities

As of April 24, 1988, James River and its subsidiaries had nine revolving credit agreements with domestic and foreign banks providing for unsecured borrowings of up to approximately \$875 million, of which \$250 million supports a commercial paper program. At April 24, 1988, the Company had outstanding \$371.6 million under the revolving credit facilities at an average interest rate of 8.0% and \$104.1 million of commercial paper at an average interest rate of 7.0%. Because of the availability of long-term financing under the terms of the revolving credit agreements, the commercial paper has been classified as long-term debt.

Seven of the revolving credit agreements provide for aggregate borrowings of up to \$815 million through March 1993, at which time any then outstanding balances must be repaid in their entirety. Borrowings under these agreements are denominated in U.S. dollars, with interest rates primarily based on either the prime lending rate, the certificate of deposit ("CD") rate or a rate tied to the London Interbank Offered Rate ("LIBOR"). At April 24, 1988, the prime lending rate was 8.5% and the CD and LIBOR rates ranged from 6.45% to 7.5%. Two of the revolving credit facilities provide for borrowings by certain subsidiaries of up to approximately \$60 million to 1992. Borrowings under these agreements are denominated in foreign currencies, with interest rates based on various measures of current market rates. The covenants under the revolving credit agreements are generally less restrictive than those encompassed in the senior note agreements.

Each of the nine credit agreements provides for commitment fees during the revolving loan period. Fees are based on percentages ranging from .075% to .25% per annum of the unused portion of the commitment. Additionally, certain of these agreements provide for fees of .125% per annum of the committed balance.

Senior Notes and Revenue Bonds

Under the most restrictive debt agreements, the Company is required to maintain minimum consolidated working capital of \$300 million and a minimum consolidated current ratio, excluding certain current liabilities as defined by the agreements, of 1.5. The note agreements require the Company to meet minimum net worth requirements and certain financial ratios related to funded debt before it incurs additional funded debt or long-term lease obligations, encumbers its assets or makes certain investments. Additionally, short-term borrowings are limited based upon levels of other borrowings for at least 45 consecutive days in any fiscal year. At April 24, 1988, under the most restrictive of these provisions, the Company had additional long-term borrowing capacity of over \$680 million and retained earnings available for the payment of dividends of approximately \$140 million.

On April 21, 1988, the Company issued, in a private placement, \$200 million of senior notes with interest rates ranging from 9.05% to 9.75% and final maturities from 1993 to 1998. The covenants under these senior notes are the same as those previously described.

In a transaction effected on April 23, 1988, Crown was merged into James River. As a consequence of the merger, James River assumed all of the debt of Crown. Prior to this date, Crown was accounted for as a consolidated subsidiary.

Certain debt acquired in conjunction with acquisitions is stated in accordance with purchase method accounting requirements at present values utilizing imputed interest rates ranging from approximately 8% to 15%. At April 24, 1988, \$351.1 million aggregate face amount of such long-term debt is stated at a present value of \$353.4 million.

Certain of the Company's senior notes and revenue bonds are collateralized by assets consisting of property, plant and equipment, accounts receivable and inventories. At April 24, 1988, loan agreements with an aggregate unpaid balance of \$106 million were collateralized by assets whose net book value approximated \$95 million.

Short-Term Borrowing Agreements

At April 24, 1988, James River had agreements with several banks providing for maximum short-term borrowings totaling \$345 million. Any borrowings under these agreements are dependent upon bank availability and provisions of the Company's debt agreements, and bear interest based on money market rates (approximately 1.25% below prime at April 24, 1988). There were no borrowings outstanding at April 24, 1988 under these agreements.

Note 9**Inventories**

Inventory components and their valuation methods were as follows:

<i>(in thousands)</i>	1988	1987
Components:		
Raw materials	\$209,324	\$172,497
Finished goods and work in process	494,116	438,766
Stores and supplies	142,460	109,527
	<u>845,900</u>	<u>720,790</u>
Subtraction to state certain inventories at LIFO cost	(43,853)	(7,100)
Total inventories	<u>\$802,047</u>	<u>\$713,690</u>
Valued at lower of cost or market:		
Last-in, first-out	\$626,630	\$590,179
First-in, first-out or average	175,417	123,511
Total inventories	<u>\$802,047</u>	<u>\$713,690</u>

The following disclosure is made for purposes of complying with Revenue Procedure 72-29. As a result of the application of Accounting Principles Board Opinion No.16, the April 24, 1988 amount of LIFO inventories for financial reporting purposes related to certain subsidiaries acquired during fiscal 1987 exceeds the basis of such inventories for Federal income tax purposes by approximately \$9.2 million.

Note 10**Preferred Stock**

The Company is authorized to issue up to five million preferred shares having a par value of \$10 per share. The preferred shares are issuable in series with varying dividend rates, redemption rights, conversion terms, sinking fund provisions, liquidation values and voting rights. Preferred stock outstanding at the end of fiscal 1988, 1987 and 1986 consisted of the following:

<i>(in thousands, except per share amounts)</i>	1988	1987	1986
Series C, \$100 liquidation value per share ..	\$ 804	\$ 1,111	\$1,419
Series D, \$100 liquidation value per share ..	2,680	2,920	3,160
Series E, \$100 liquidation value per share ..	1,434	2,867	4,300
Series K, \$50 liquidation value per share ...	100,000	100,000	
Series L, \$200 liquidation value per share ..	200,000		
Total redeemable and non-redeemable preferred stock	<u>\$304,918</u>	<u>\$106,898</u>	<u>\$8,879</u>

Mandatory annual redemption payments of \$2 million, \$.5 million, \$.4 million, \$.2 million and \$.2 million in fiscal 1989, 1990, 1991, 1992 and 1993, respectively, are required.

REDEEMABLE PREFERRED STOCK**Series C Cumulative Participating Preferred Stock**

Mandatory dividends of \$4.00 per share per annum are payable semiannually on the Series C Cumulative Participating Preferred Stock ("Series C") and participating dividends up to a maximum of \$6.00 per share are payable annually based on the earnings of a certain subsidiary of the Company. In fiscal 1988, 1987 and 1986, only mandatory dividend payments were required. Annual sinking fund payments of \$307,200 are required until the Series C is fully redeemed.

Series D Cumulative Preferred Stock

The Series D Cumulative Preferred Stock ("Series D") has an annual dividend rate of \$8.75 per share, payable quarterly. The Series D is redeemable, in whole or in part, at a per share price declining from \$104.15 at April 24, 1988 to \$100 in December 1996 and thereafter, plus dividends earned but unpaid to the date of redemption. Quarterly sinking fund payments of \$60,000 are required until December 1997 when a final payment of \$400,000 is due.

Series E Cumulative Preferred Stock

The Series E Cumulative Preferred Stock ("Series E") has an annual dividend rate of \$8.75 per share, payable quarterly. The Series E is redeemable, in whole or in part, at a per share price of \$100, plus dividends earned but unpaid to the date of redemption. The final sinking fund payment of \$1,433,400 is required in December 1988.

Series H Preferred Stock

On April 25, 1986, the Company effectively redeemed all 760,000 of the then outstanding shares of its Series H Preferred Stock at a price of \$100.73 per share plus accrued dividends to the redemption date. The effect on earnings per common share for fiscal 1986 was not material.

Series I \$5.85 Cumulative Convertible Preferred Stock

The Series I \$5.85 Cumulative Convertible Preferred Stock ("Series I"), having a liquidation value of \$45 per share, was convertible into common stock at \$20 per share. On August 8, 1985, the 253,649 then outstanding shares of Series I were converted into 570,709 shares of common stock.

NON-REDEEMABLE PREFERRED STOCK**Series J Cumulative Convertible Preferred Stock**

On March 31, 1986, the Company redeemed all 200 of the then outstanding shares of its Series J Cumulative Convertible Preferred Stock, \$10 par value, which had been issued to a trust in December 1985.

Series K \$3.375 Cumulative Convertible Exchangeable Preferred Stock

On November 4, 1986, two million shares of Series K \$3.375 Cumulative Convertible Exchangeable Preferred Stock were issued at a price of \$50 per share. The Series K is convertible at the option of the holder at any time into James River common stock at a conversion price of \$40.75 per share, subject to adjustment under certain conditions. The Series K is not redeemable prior to November 1, 1988, unless the closing price of the James River common stock has equaled or exceeded 150% of the then effective conversion price per share for at least 20 trading days within 30 consecutive trading days ending within five trading days prior to the date notice of redemption is given. With respect to redemptions in that event prior to November 1, 1988, and to redemptions thereafter, the Series K is redeemable, in whole or in part, at the option of James River at redemption prices declining from \$53.04 per share at April 24, 1988 to \$50 per share on November 1, 1996 and thereafter. Beginning November 1, 1988, the Series K is exchangeable in whole, at the option of James River, on any dividend payment date for James River's 6.75% Convertible Subordinated Debentures due November 1, 2016 ("6.75% Debentures") at the rate of \$50 principal amount of 6.75% Debentures for each share. The 6.75% Debentures, if issued, will be convertible at the option of the holder at any time, unless previously redeemed, into James River common stock on the same terms as the preferred shares.

Series L \$14.00 Cumulative Convertible Exchangeable Preferred Stock

On September 29, 1987, James River issued one million shares of Series L \$14.00 Cumulative Convertible Exchangeable Preferred Stock, represented by four million Depositary Shares. The proportionate dividend rate per annum and liquidation preference of each Depositary Share are \$3.50 and \$50, respectively. The Series L is convertible at the option of the holder at any time into James River common stock at a rate of five shares of common for each share of Series L (equivalent to a conversion price of \$40 per share of common stock or a rate of 1.25 shares of common stock for each Depositary Share), subject to adjustment under certain conditions. The Series L is not redeemable prior to October 1, 1989. With respect to redemptions thereafter, the Series L is redeemable, in whole or in part, at the option of James River at redemption prices declining from \$211.20 (equivalent to \$52.80 per Depositary Share) on October 1, 1989 to \$200 per share (equivalent to \$50 per Depositary Share) on October 1, 1997 and thereafter. Beginning October 1, 1989, the Series L is exchangeable in whole, at the option of James River, on any dividend payment date for James River's 7%

Convertible Subordinated Debentures due October 1, 2017 ("7% Debentures") at the rate of \$200 principal amount of 7% Debentures for each preferred share (equivalent to \$50 per Depositary Share). The 7% Debentures, if issued, will be convertible at the option of the holder at any time, unless previously redeemed, into James River common stock on the same terms as the preferred shares.

Note 11

Common Stock

The Company is authorized to issue 150 million common shares, each with a par value of \$.10. Common shares of the Company were reserved for issuance as follows:

	1988	1987
Stock options granted or available for grant	3,574,741	3,773,692
Conversion of Series K	2,453,988	2,453,988
Conversion of Series L	5,000,000	
Total reserved common shares	11,028,729	6,227,680

In October 1987, the Board of Directors authorized the repurchase of up to four million shares of common stock to be used for employee benefit plans and conversions of Series K and Series L. At April 24, 1988, 1,374,000 such shares had been repurchased at a cost of approximately \$28 million. These shares are included in the authorized but unissued shares of stock of the Company, in accordance with the Virginia Stock Corporation Act.

Note 12

Stock Options

The Company's Stock Option Plan (the "1977 Plan") and 1987 Stock Option Plan (the "1987 Plan") provide for the granting of stock options to certain officers and other key employees. Stock options issued under the 1977 Plan have terms of ten years and become exercisable in four equal cumulative annual increments beginning four years after the date of grant, subject to acceleration in certain circumstances. Option prices are at least 100% of the market value of the stock at the date of grant. Outstanding options under the 1977 Plan expire through 1997. The 1977 Plan was terminated on January 5, 1987; accordingly, no additional options will be granted under this plan.

Stock options issued under the 1987 Plan have terms of ten years and become exercisable in three equal cumulative annual increments beginning three years after the date of grant, subject to acceleration in certain circumstances. Option prices are at least 100% of the market value of the stock at the date of grant. Outstanding options under the 1987 Plan expire in 1997 and 1998.

Notes to Consolidated Financial Statements (continued)

At April 24, 1988, a total of 875 officers and other key employees held such options. Options available for granting under these plans were 2,262,953, 2,978,240 and 508,862 at April 24, 1988, April 26, 1987 and April 27, 1986, respectively.

Stock option activity for the 1987 Plan and the 1977 Plan for each of the last three fiscal years is summarized as follows:

	Number of Shares	Option Price	
		Per Share Range	Total (in thousands)
Outstanding options at			
April 28, 1985	894,501	\$ 1.81-26.17	\$ 6,105
Granted	31,781	17.33-29.75	707
Canceled	(24,248)	3.90-25.50	(214)
Exercised	(149,842)	1.81-11.25	(586)
Outstanding options at			
April 27, 1986	752,192	1.81-29.75	6,012
Granted	185,028	25.25-41.32	5,819
Canceled	(33,098)	2.27-30.54	(686)
Exercised	(108,670)	1.81-25.00	(516)
Outstanding options at			
April 26, 1987	795,452	1.81-41.32	10,629
Granted	736,730	20.13-41.38	24,594
Canceled	(59,135)	1.81-39.69	(1,571)
Exercised	(161,259)	1.81-25.75	(953)
Outstanding options at			
April 24, 1988	1,311,788	\$ 4.45-41.38	\$32,699
Options exercisable at			
April 24, 1988	210,912	\$ 4.45-38.75	\$ 1,485

The preceding table excludes options to acquire shares of Crown common stock outstanding under Crown stock option plans at the date of James River's acquisition of Crown. Options to acquire 67,092 Crown common shares were converted into options to acquire 107,492 shares of James River common stock ("Converted Options") at exercise prices ranging from \$12.01 to \$25.98. During fiscal 1987, Converted Options to acquire 98,522 shares of James River common stock were exercised and the remaining 8,970 expired. All options to acquire shares of Crown common stock which were not converted were either exercised or canceled.

Note 13

Variable Stock Awards

Stock Appreciation Rights

The Company's Stock Appreciation Rights Plan (the "SAR Plan") provides for the award of stock appreciation rights ("Rights") to officers and other key employees. Rights granted under the SAR

Plan have terms of ten years and become exercisable in four equal cumulative annual amounts beginning four years after the date of grant, subject to acceleration in certain circumstances. Upon exercise of a Right, an optionee is entitled to receive without payment to the Company, cash or, at the Company's option, James River common stock equal to the excess of the market value (as defined) of James River common stock at the date of exercise over the value at the date of grant. At April 24, 1988, a total of 662 officers and other key employees held such Rights which expire from 1990 to 1997.

Rights activity for each of the last three fiscal years is summarized as follows:

	Number of Rights	Value at Date of Grant	
		Per Share Range	Total (in thousands)
Outstanding Rights at			
April 28, 1985	1,066,154	\$ 5.31-26.17	\$ 9,545
Granted	29,808	17.33-29.75	654
Canceled	(32,717)	5.82-25.50	(359)
Exercised	(30,528)	5.31-16.96	(192)
Outstanding Rights at			
April 27, 1986	1,032,717	5.31-29.75	9,648
Granted	374,840	25.25-34.19	11,408
Canceled	(52,487)	5.82-30.54	(1,007)
Exercised	(64,451)	5.31-25.00	(418)
Outstanding Rights at			
April 26, 1987	1,290,619	5.31-34.19	19,631
Canceled	(60,808)	5.82-32.19	(1,316)
Exercised	(362,699)	5.31-30.54	(2,357)
Outstanding Rights at			
April 24, 1988	867,112	\$ 5.41-34.19	\$15,958
Rights exercisable at			
April 24, 1988	136,499	\$ 5.41-30.54	\$ 994

The SAR Plan was terminated effective August 13, 1987; accordingly, no additional Rights will be granted.

Deferred Stock Plan

The Company's Deferred Stock Plan (the "Deferred Plan") provides for the award of hypothetical shares of James River common stock ("Units") to certain officers and key employees. Each award vests in equal annual increments over periods which vary from one to fifteen years. The value of each Unit is equal to the current market value of a share of common stock. Benefits will be paid in cash and James River common stock as vested or, at the option of the participant, over varying periods after retirement. At April 24, 1988, Units were held by 25 officers and employees.

Activity for the Deferred Plan for each of the last three fiscal years is summarized as follows:

	Number of Units
Outstanding Units at	
April 28, 1985	258,194
Granted	20,550
Accrued dividends	3,009
Distributed	(23,171)
Outstanding Units at	
April 27, 1986	258,582
Granted	39,000
Accrued dividends	1,057
Distributed	(23,633)
Outstanding Units at	
April 26, 1987	275,006
Accrued dividends	3,277
Canceled	(9,860)
Distributed	(63,329)
Outstanding Units at	
April 24, 1988	205,094

Note 14

Stock Purchase Plans for Employees

The James River Stock Purchase Plan, as amended, is available to substantially all domestic and Canadian employees. Participating employees may contribute up to a maximum of ten percent of their earnings to the plan. The Company matches participants' contributions up to a maximum of six percent of compensation, with amounts ranging from 50 to 110 percent of such participant contributions. Contributions generally are invested in the common stock of James River; however, upon reaching age 59-1/2, participants may elect to transfer all or a portion of the value of their accounts, and direct contributions, to a fixed-income investment fund. As of April 24, 1988, approximately 25,600 of the 34,000 eligible employees were participants in the Stock Purchase Plan. The plan held approximately six million shares of James River common stock and investments of \$2.4 million in the fixed-income investment fund at April 24, 1988.

In connection with James River's acquisition of Crown on May 5, 1986, the Company assumed administrative responsibility for the Crown Zellerbach Salaried Employees Retirement Savings Plan. Contributions to this plan ceased as of June 30, 1986. All shares of Crown common stock held by the plan have been converted into either James River common shares or shares of those businesses split off from Crown. At April 24, 1988, the plan held approximately 1.7 million shares of James River common stock and \$51.5 million of other investments.

Note 15

Commitments and Contingent Liabilities

Leases

The Company leases certain facilities, vehicles and equipment over varying periods. None of the agreements contain unusual renewal or purchase options. As of April 24, 1988, leases having initial or remaining noncancelable terms in excess of one year require the following aggregate future minimum rental payments:

(in thousands)	Minimum Rentals
Fiscal Year	
1989	\$ 40,078
1990	31,446
1991	23,697
1992	20,029
1993	16,546
Later years	65,319
Total future minimum rentals	<u>\$197,115</u>

Rent expense on all lease obligations in fiscal 1988, 1987 and 1986 amounted to \$59.1 million, \$53.3 million and \$34.4 million, respectively. Leases which may be considered to be capital leases are not material.

Litigation

The Company is a party to various legal proceedings generally incidental to its business. Although the ultimate disposition of these proceedings cannot be predicted with certainty, it is the present opinion of the management of the Company that the outcome of any lawsuit or claim which is pending or threatened, or all of them combined, will not have a materially adverse effect on the consolidated financial condition of James River.

Other Matters

Effective February 24, 1987, James River purchased approximately 26,000 acres of timberlands located in Alabama and Mississippi and, in a related transaction, the Prudential Insurance Company of America ("Prudential") purchased another 116,000 acres of adjacent timberlands. Simultaneously, James River and Prudential entered into an agreement whereby James River has the right to purchase, and Prudential has the right to require James River to purchase, the acreage originally acquired by Prudential in specified increments through 1994. Pursuant to the agreement, James River purchased approximately 24,000 acres during fiscal 1988.

Note 16

Segment Information

The Company operates in two primary industry segments. The Paper and Other Products segment includes the manufacture and marketing of: (i) consumer and institutional towel and tissue and other papers sold into hygienic markets; (ii) specialty and commodity papers sold into the communications market; (iii) specialty papers sold into the specialty industrial and packaging market and (iv) products sold into other markets,

primarily consisting of market pulp and ink. The Packaging and Food Service Products segment includes the manufacture and marketing of: (i) folding paperboard cartons and flexible packaging for the food and consumer packaging market and (ii) paperboard, plastic and tissue products for the food and beverage service market. Information about the Company's business segments for the three fiscal years ended April 24, 1988 was as follows (net sales by product group within each segment are unaudited):

(in thousands)	1988	1987	1986
<i>Net sales:</i>			
Paper and other products:			
Hygienic products	\$1,385,354	\$1,304,445	\$ 841,819
Communication papers	1,184,111	1,077,632	350,397
Specialty industrial and packaging papers	722,388	605,177	516,511
Other	184,200	147,435	79,460
	<u>3,476,053</u>	<u>3,134,689</u>	<u>1,788,187</u>
Packaging and food service products:			
Food and consumer packaging	818,886	690,903	367,641
Food and beverage service products	803,039	653,409	451,122
	<u>1,621,925</u>	<u>1,344,312</u>	<u>818,763</u>
Consolidated net sales	<u>\$5,097,978</u>	<u>\$4,479,001</u>	<u>\$2,606,950</u>
<i>Operating profit:</i>			
Paper and other products	\$368,359	\$369,641	\$140,502
Packaging and food service products	126,036	106,120	79,797
	<u>494,395</u>	<u>475,761</u>	<u>220,299</u>
Corporate items:			
General corporate expenses	(57,375)	(67,898)	(35,031)
Interest expense	(115,527)	(111,564)	(44,281)
Interest and other income	56,025	59,982	9,057
Income taxes	(168,508)	(186,417)	(54,756)
Net income	<u>\$209,010</u>	<u>\$169,864</u>	<u>\$ 95,288</u>
<i>Depreciation, amortization and cost of timber harvested:</i>			
Paper and other products	\$155,567	\$130,342	\$62,364
Packaging and food service products	50,898	37,189	18,663
Corporate	2,997	7,531	1,448
Consolidated depreciation, amortization and cost of timber harvested	<u>\$209,462</u>	<u>\$175,062</u>	<u>\$82,475</u>
<i>Capital expenditures:</i>			
Paper and other products	\$461,578	\$389,291	\$236,096
Packaging and food service products	148,848	110,207	41,054
Corporate	12,653	9,475	3,908
Consolidated capital expenditures	<u>\$623,079</u>	<u>\$508,973</u>	<u>\$281,058</u>
<i>Total assets:</i>			
Paper and other products	\$3,320,943	\$3,025,931	\$1,441,410
Packaging and food service products	1,218,366	951,364	457,342
Corporate	466,408	233,177	73,474
Consolidated total assets	<u>\$5,005,717</u>	<u>\$4,210,472</u>	<u>\$1,972,226</u>

In each fiscal year, the Company's export sales represented less than 10% of total sales to unaffiliated customers and no single customer accounted for more than 10% of such total sales. Sales and transfers between the Company's segments were not material and have been eliminated. The Company's plants and facilities are principally located within the United States. At April 24, 1988, net assets located outside the United States

included in the consolidated financial statements were approximately \$340 million.

Operating profit excludes general corporate expenses, interest expense, income taxes and non-operating income. Corporate assets consist principally of cash and short-term securities, non-current assets not utilized in operations and the Company's investment in unconsolidated affiliates, which investment totaled \$269.3 million at April 24, 1988.

Note 17

Quarterly Highlights (Unaudited)

				Per Common Share				
	Net	Gross	Net	Primary	Fully Diluted		Stock Price	
(in thousands, except per share amounts)	Sales	Profit	Income	Earnings	Earnings	Dividends	High	Low
Fiscal 1988: (a)								
1st Quarter	\$1,179,216	\$263,699	\$47,312	\$.55	\$.55	\$.10	\$39	\$31½
2nd Quarter	1,286,152	313,920	53,429	.61	.61	.10	38¾	19½
3rd Quarter	1,237,725	286,653	49,213	.54	.54	.10	25¼	18½
4th Quarter	1,394,885	324,304	59,056	.66	.66	.10	27¾	23
Fiscal 1987: (b)(c)								
1st Quarter	1,069,672	252,196	46,237	.58	.58	.10	31¾	22
2nd Quarter	1,160,378	269,882	36,119	.43	.43	.10	35	25
3rd Quarter	1,057,588	255,569	41,691	.49	.49	.10	39¾	29¾
4th Quarter	1,191,363	297,322	45,817	.53	.53	.10	43¾	35½
Fiscal 1986: (d)								
1st Quarter	629,862	163,022	25,163	.51	.48	.09	24½	17½
2nd Quarter	674,539	178,825	30,014	.56	.55	.09	24	21½
3rd Quarter	608,648	141,886	17,081	.29	.29	.09	27¾	21¼
4th Quarter	693,901	158,307	23,030	.41	.41	.09	31½	25¼

- (a) Net income for the first quarter of fiscal 1988 includes a \$5.5 million after-tax insurance recovery (\$.07 per share) which represents the excess of the anticipated property insurance settlement over the net book value of the damaged equipment at a mill site.
- (b) In the second quarter of fiscal 1987, the Company recognized the cumulative adverse effect of the retroactive provisions of the Tax Reform Act of 1986 related to investment tax credits by recording a charge to income tax expense of \$10.6 million (\$.13 per share), including \$5.3 million of investment tax credit benefits which had been recognized in fiscal 1986. Furthermore, the loss of most investment tax credits for the balance of fiscal 1987 increased tax expense an additional \$8.8 million (\$.11 per share), \$4.4 million (\$.05 per share) and \$4.6 million (\$.06 per share) in the second, third and fourth quarters, respectively, of fiscal 1987.
- (c) Net income for the third quarter of fiscal 1987 includes \$5.2 million, or \$.06 per fully diluted share, related to James River's participation in the sale of Gaylord Container, a former Crown operation, by its new owner. This amount represents (i) the acceleration of amounts which would have been recognized in subsequent quarters under certain agreements between James River and Gaylord Container and (ii) the payment to James River of 50% of the proceeds of the sale of Gaylord Container in excess of \$248.5 million.
- (d) Net income for the fourth quarter of fiscal 1986 includes a \$1.8 million after-tax charge (\$.03 per primary and fully diluted share) related to a planned mill closure.

Note 18

Subsequent Event (Unaudited)

Ridgway Acquisition

On June 3, 1988, in a transaction accounted for as a purchase, James River acquired all of the outstanding stock of Armstrong Rees Ederer, Inc. and its consolidated subsidiaries (collectively,

the "Ridgway Companies"), a leading West Coast manufacturer of folding cartons. The Ridgway Companies, with operations in Washington, Oregon, California and Idaho, had annual net sales of approximately \$60 million in 1987. The outstanding stock of the Ridgway Companies was acquired in exchange for approximately \$5 million in cash and 960,000 shares of James River common stock.

Eleven-Year Selected Financial Data^{1,2}

James River Corporation of Virginia and Subsidiaries

(In thousands except ratios and per share data)

	1988	1987	1986	1985
Summary of Consolidated Operations				
Net sales	\$5,097,978	\$4,479,001	\$2,606,950	\$2,492,009
Other income	56,025	59,982	9,057	12,687
Cost of goods sold	3,909,402	3,404,032	1,964,910	1,895,647
Selling and administrative expenses	751,556	667,106	456,772	385,816
Interest expense	115,527	111,564	44,281	52,310
Income before income tax expense, extraordinary charge and minority interest	377,518	356,281	150,044	170,923
Income before extraordinary charge and minority interest	209,010	169,864	95,288	101,351
Net income	209,010	169,864	95,288	101,351
Selected Cash Flow Information				
Income items not affecting cash:				
Depreciation and cost of timber harvested	\$201,960	\$162,606	\$ 81,739	\$ 66,432
Deferred taxes	145,102	84,952	50,445	75,593
Amortization and other	(56,287)	21,417	10,180	(5,002)
Capital expenditures, excluding acquisitions	623,079	508,973	281,058	218,221
Summary of Consolidated Financial Position³				
Current assets	\$1,443,914	\$1,343,114	\$ 743,762	\$ 741,722
Current liabilities	730,114	631,287	303,001	292,863
Net property, plant and equipment	2,935,738	2,529,563	1,205,792	984,017
Total assets	5,005,717	4,210,472	1,972,226	1,740,890
Long-term debt, net of current portion	1,622,990	1,280,428	646,498	563,132
Deferred income taxes, net of current portion	366,785	266,147	197,941	144,879
Long-term obligations and redeemable preferred stock	1,723,496	1,459,915	724,421	716,925
Redeemable preferred stock	4,918	6,898	8,879	96,838
Non-redeemable preferred and common shareholders' equity	2,177,477	1,847,198	744,204	581,826
Common Stock Information				
Income before extraordinary charge applicable to common shares	\$193,780	\$165,864	\$87,711	\$92,269
Weighted-average number of common shares and common share equivalents:				
Primary	82,256	81,821	49,523	43,544
Fully diluted	82,272	81,838	51,525	50,579
Income before extraordinary charge per common share and common share equivalent:				
Primary	\$ 2.36	\$ 2.03	\$ 1.77	\$ 2.12
Fully diluted	\$ 2.36	\$ 2.03	\$ 1.73	\$ 1.93
Cash dividends declared per common share	\$.40	\$.40	\$.37	\$.37
Equity per common share ³	\$23.12	\$21.22	\$14.40	\$13.35
Price range of common stock per share:				
High	\$39	\$43 ³ / ₄	\$31 ¹ / ₈	\$23
Low	\$18 ¹ / ₂	\$22	\$17 ¹ / ₈	\$15 ⁵ / ₈
Average weekly trading volume (shares)	1,437	1,280	753	488
Common shares outstanding ³	81,193	82,354	51,672	43,575
Selected Ratios				
Return on net sales	4.1%	3.8%	3.7%	4.1%
Return on average common equity	10.7%	10.0%	13.2%	17.7%
Return on average investment (total assets)	4.5%	4.1%	5.1%	6.3%
Current ratio	1.98	2.13	2.45	2.53

¹ Reflects three-for-two common stock splits on June 23, 1986, June 20, 1983, June 22, 1981, May 25, 1979 and July 21, 1978.

² Certain amounts for fiscal 1978 through fiscal 1987 have been reclassified to conform to the fiscal 1988 presentation.

³ At end of fiscal year.

1984	1983	1982	1981	1980	1979	1978
\$2,301,076	\$1,656,112	\$772,682	\$561,318	\$373,946	\$297,940	\$181,922
11,652	7,500	2,791	2,118	2,701	1,278	452
1,728,243	1,253,365	658,199	477,787	312,961	245,198	155,732
355,620	264,807	66,418	43,784	28,116	21,247	11,742
55,796	50,761	16,574	9,842	4,680	4,131	2,831
173,069	94,679	34,282	32,023	30,890	28,642	12,069
100,477	59,285	22,353	21,356	16,659	14,709	6,219
97,995	55,148	22,353	17,881	16,659	14,709	6,219
\$ 53,064	\$32,096	\$14,305	\$ 9,286	\$ 4,289	\$3,300	\$1,911
50,913	20,713	8,108	7,080	2,119	1,279	1,090
(3,791)	1,083	221	156	176	242	182
132,988	77,043	42,103	21,280	11,113	9,377	4,714
\$ 635,297	\$ 567,203	\$221,231	\$196,955	\$ 94,617	\$102,851	\$ 61,178
284,149	204,561	102,042	88,649	33,277	44,048	24,480
811,599	573,873	253,352	237,846	71,379	64,778	41,608
1,459,869	1,152,117	478,116	438,788	168,590	169,738	104,013
442,917	427,450	147,363	137,740	49,939	51,137	36,722
89,229	43,217	19,944	12,486	7,265	5,146	3,867
616,680	518,083	196,178	191,546	65,693	72,045	50,217
104,082	9,904	10,024	10,024	15,024	20,270	12,957
466,692	344,294	159,952	146,107	61,844	48,077	25,145
\$90,331	\$51,264	\$17,061	\$18,006	\$15,415	\$12,903	\$5,718
39,810	28,614	19,691	17,937	16,343	13,509	11,145
49,695	41,597	25,310	20,897	16,353	14,021	12,345
\$ 2.27	\$1.79	\$.87	\$1.02	\$.96	\$.97	\$.51
\$ 1.97	\$1.47	\$.85	\$.98	\$.96	\$.93	\$.47
\$.27	\$.18	\$.18	\$.14	\$.13	\$.07	\$.03
\$11.63	\$9.33	\$5.79	\$5.08	\$4.26	\$3.35	\$2.34
\$28 ¹ / ₈	\$20 ³ / ₄	\$10 ³ / ₈	\$9 ¹ / ₈	\$7 ⁷ / ₈	\$6 ⁵ / ₈	\$3
\$18 ¹ / ₈	\$ 6	\$ 5 ⁷ / ₈	\$4 ³ / ₄	\$4 ¹ / ₄	\$2 ⁷ / ₈	\$1 ³ / ₄
302	292	76	124	133	113	65
39,729	36,923	18,998	18,927	14,525	14,361	10,743
4.3%	3.3%	2.9%	3.8%	4.5%	4.9%	3.4%
22.3%	22.9%	16.6%	22.3%	28.0%	35.0%	25.5%
7.5%	6.8%	4.9%	7.0%	9.8%	10.7%	7.4%
2.24	2.77	2.17	2.22	2.84	2.34	2.50

Board of Directors

FitzGerald Bemiss*
Management Consultant
Richmond, Virginia

W. J. Bowen
Chairman of the Board,
Transco Energy Company
Houston, Texas
(diversified energy company)

William T. Burgin*
Partner, Bessemer Venture Partners
Wellesley Hills, Massachusetts

Richard H. Catlett, Jr.
Partner, McGuire, Woods, Battle
& Boothe
Richmond, Virginia
(attorneys-at-law)

William T. Comfort, Jr.
Chairman, Citicorp Venture
Capital, Ltd. and Citicorp
Capital Investors Ltd.
New York, New York
(subsidiaries of Citibank, N.A.
and Citicorp)

William V. Daniel
Executive Vice President,
WFS Financial Corporation
Richmond, Virginia
(investment banking and
financial services)

Bruce C. Gottwald*
President, Chief Operating Officer,
Ethyl Corporation
Richmond, Virginia
(chemicals/diversified)

Brenton S. Halsey
Chairman of the Board,
Chief Executive Officer,
James River Corporation
Richmond, Virginia

Robert M. O'Neil
President, University of Virginia
Charlottesville, Virginia

Joseph T. Piemont
Management Consultant
Charlotte, North Carolina

Robert C. Williams
President, Chief Operating Officer,
James River Corporation
Richmond, Virginia

William S. Woodside
Chairman, Sky Chefs Incorporated
Dallas, Texas
(major airline catering business)

*Member of the Audit Committee

Executive Officers

Brenton S. Halsey
Chairman, Chief Executive Officer

Robert C. Williams
President, Chief Operating Officer

Judd H. Alexander
Executive Vice President
Packaging Business

Charles M. Foster
Senior Vice President,
Group Executive
Dixie Products Business

Ernest S. Leopold
Senior Vice President,
Group Executive
Communication Papers Business

James E. Rogers
Senior Vice President,
Group Executive
Specialty Papers Business

Ronald L. Singer
Senior Vice President,
Group Executive
Towel & Tissue Business

Ronald B. Estridge
Senior Vice President,
Group Executive
Technology

David J. McKittrick
Senior Vice President,
Group Executive
Finance, Transportation & Risk
Chief Financial Officer

Lawrence S. Morrow
Senior Vice President,
Group Executive
Human Resources

E. Lee Showalter
Senior Vice President,
Group Executive
Corporate Development

Corporate Staff Officers

Robert J. Sherry
Senior Vice President,
Employee & Public Relations

Benjamin A. Thorp
Senior Vice President, Engineering

Richard M. Bauer
Vice President, Research
& Development

T. Norman Bush
Vice President, Tax Counsel

Theodore R. Edwards
Vice President,
Manufacturing Management
Consultant

Richard C. Erickson
Vice President,
Real Estate & Corporate Facilities

Joseph L. Fischer
Vice President,
Industrial Relations & Employee
Benefits

William L. Flaherty
Vice President, Treasurer

Stephen H. Garnett
Vice President, Public Affairs

Louis F. Heeb
Vice President, Counsel (Norwalk)

Phillip S. Henss
Vice President, Corporate Planning

Leonard E. Hickey
Vice President, Pension Fund
Management

James C. Miller
Vice President,
Management Information Systems

W. Thomas Myers, Jr.
Vice President,
International Business Development

Malcolm E. Shaw
Vice President,
Organization Development
Consultant

Warren L. Spiller
Vice President, Corporate Controller

Frank M. Wood, Jr.
Vice President,
Transportation & Risk Management

Karen M. L. Whelan
Assistant Treasurer

Richard H. Catlett, Jr.
Corporate Secretary

Debra P. Fitzgerald
Assistant Corporate Secretary

Fabian K. vom Hofe
Senior Management
Advisor—Europe

Operations Officers

COMMUNICATION PAPERS BUSINESS

Ernest S. Leopold
Senior Vice President, Group Executive

Lewis J. Carlson
Vice President, Technology

Antoinette S. Gabriel
Vice President, Planning & Administration

John E. Griffith
Vice President, Marketing

BUSINESS PAPERS GROUP
Joe R. Neil
Vice President, General Manager

BUSINESS DEVELOPMENT DIVISION
Denzel G. Hankinson
Vice President

COMMERCIAL PAPERS DIVISION
Peter S. Sanders
Vice President

CONVERTING PAPERS DIVISION
Anthony F. Santucci
Vice President

ONE-TIME CARBONIZING DIVISION
Thomas E. Gallagher
Vice President

TECHNICAL SPECIALTIES DIVISION
Eugene E. Coder
Vice President

GROUNDWOOD SPECIALTY PAPERS GROUP
Robert J. Morgan
Vice President, General Manager

PREMIUM PRINTING PAPERS GROUP
Terry L. Brubaker
Group Vice President

Samuel S. M. DuBois
Senior Vice President

Ronald W. Joscelyn
Vice President, Sales Services

William J. Walker
*Vice President,
Administration & Distribution*

Frank L. Wright
Vice President, Resource Development

Frank N. Darling
Vice President, Sales

RICHMOND CONVERTING DIVISION
Donald L. Joyce
Vice President, General Manager

GB PAPERS
C. Neil Henderson
Director, General Manager

CURTIS MILLS DIVISION
Edward G. Gremban
Vice President, General Manager

NEWARK MILL
Alfred L. Saindon
Vice President, Resident Manager

PRINTING PAPERS GROUP
W. Lynn Thirtyacre
Vice President, General Manager

William A. Kindler
Vice President, Sales

ST. FRANCISVILLE MILL
David D. Hulit
Vice President, Resident Manager

NORTHEAST GROUP
John F. Shank
Vice President, General Manager

BERLIN / GORHAM MILL
L. Jay Aylward
Vice President, General Manager, Paper

PULP DIVISION
Bruce D. Wagner
Vice President, Sales & Marketing

JAMES RIVER-MARATHON, LTD.
Trent A. James
President, Resident Manager

SOLKA FLOC DIVISION
John Chubb
Vice President, General Manager

NORTHWEST GROUP
Robert C. Martin
*Vice President,
Manufacturing & Services*

CAMAS MILL
Andrew G. Elsbree
Vice President, Resident Manager

WAUNA MILL
Allison M. Neelley
Vice President, Resident Manager

DIXIE PRODUCTS BUSINESS

Charles M. Foster
Senior Vice President, Group Executive

Robert E. Slotter
*Vice President,
Dixie/Marathon Sales Operations*

William R. Coad
*Vice President, General Manager,
Dixie Consumer*

Almond L. Stanley
Vice President, Sales

Bruce H. Hoffman
Vice President, Foodservice

Alfred F. Rossi
*Vice President, Technology &
Manufacturing Services*

Jeffrey A. Norkin
*Vice President, Systems, Planning,
Logistics & Purchasing*

HANDI-KUP DIVISION
Dennis J. Nemura
Vice President, General Manager

CANADA CUP DIVISION
Tom Thomas
President

J. Scott Birnie
Vice President, General Manager

Ian Stewart
Vice President, Manufacturing

Christopher F. Chreston
Vice President, Operations

John W. West
*Vice President,
Engineering & Technical Development*

B. William Mitchell
Vice President, Finance & Administration

DIXIE BENDER LIMITED*
Antony H. Matusch
Director

PACKAGING BUSINESS

Judd H. Alexander
Executive Vice President

Leon Katz
Vice President, Technology

Richard K. Lee
Vice President, Business Development

*50% Joint Venture

FLEXIBLE PACKAGING GROUP

James A. Toney
Group Vice President

John L. Schaefer
Vice President, Business Development

ADVANCED FILMS DIVISION
James L. Heilig
Vice President, General Manager

FLEXIBLE PACKAGING DIVISION
N. Brian Stevenson
Vice President, General Manager

COATED PRODUCTS DIVISION
Michael W. Dully
Vice President, General Manager

CZ INKS DIVISION
John E. Reinhardt
General Manager

PAPERBOARD PACKAGING GROUP
Norman K. Ryan
Group Vice President

Vernon A. Fanke
Vice President, Manufacturing

John T. Slattery
Vice President, Business Services

Donald G. Coslett
Vice President, Meat Packaging

Roy L. Gilbert
Vice President, Process Development

Thomas E. Armstrong
*Vice President, General Manager,
Paperboard Packaging, West*

SPECIALTY PAPERS BUSINESS

James E. Rogers
Senior Vice President, Group Executive

Richard W. Detrick
Vice President, Marketing & Technology

James M. Harper
Vice President, Facility Planning

GRAPHICS GROUP

Karl V. Kraske
Group Vice President

**JAMES RIVER GRAPHICS—
SOUTH HADLEY DIVISION**
Alfred T. DiLascia
Vice President, Executive General Manager

CUSTOM & IMAGING DIVISION
E. Bradley Moynahan
Vice President, General Manager

F. William Dabbs
*Vice President,
Sales & Marketing, Micrographics*

Richard J. D'Amato
Vice President, Director, Operations

DECORATIVE PRODUCTS DIVISION
John B. Charron
Vice President, General Manager

Robert W. Sullivan, Jr.
Vice President, Manufacturing

Stanley Feldman
Vice President, Sales & Marketing

Gerard W. Jepson
Vice President, Sales & Marketing

Irving Whitcup
Vice President, Sales

DESIGN PRODUCTS DIVISION
Robert L. Jones
Vice President, General Manager

Robert L. Smith
Vice President, Sales & Marketing

CHARTHAM PAPER MILLS
Henry C. Constable
Director, Resident Manager

**JAMES RIVER PHOTOGRAPHIC
PAPERS LTD.**
Jesmond A. Jarvis
Director, General Manager

JAMES RIVER-PEPPERELL DIVISION
Charles S. Sweitzer
Vice President, General Manager

Charles C. Robbins
Vice President, General Sales Manager

PREMOID DIVISION

William S. Linnell
Vice President, General Manager

Joseph A. Cancelliere
Vice President, Coated Products

Franklin B. Comery
Vice President, Sales

SMITH & MCLAURIN LIMITED
Anthony P. D. MacLaurin
Director, General Manager

**SPECIALTY INDUSTRIAL
PAPERS GROUP**
James O. Eubanks
Group Vice President

J-MASS/OTIS DIVISION
Henry J. Arvanites
Vice President, General Manager

Jon A. Lanford
Vice President, Sales & Marketing

Robert S. Morgan
Vice President, Operations, J-Mass

John P. Birtwell
Vice President, Release Base Sales

Francis E. Driscoll
Vice President, Specialty Sales

Peter K. Saksen
*Vice President,
Research & Development*

Michael C. Carlson
*Vice President, Resident Manager,
Otis*

**JAMES RIVER-FITCHBURG
DIVISION**

Robert F. Yousey, Jr.
Vice President, General Manager

FILTRATION PRODUCTS DIVISION
Patrick J. Sullivan
Vice President, General Manager

Charles F. Miller
Vice President, Sales & Marketing

**RIEDEL CUSTOM PRODUCTS
DIVISION**
Ward B. Thompson
Vice President, General Manager

**SPECIALTY PACKAGING
PAPERS GROUP**

Joseph N. Moran
Group Vice President

KVP/DUNN PAPER DIVISION

Andrew T. Muha
Vice President, General Manager

William P. Roschek
Vice President, Marketing & Sales

Robert W. Huiskamp
*Vice President, Resident Manager,
KVP Paper Mill*

James R. Scohy
*Vice President, Resident Manager,
Port Huron Mill*

PARCHMENT DIVISION

Daniel E. Conway
Vice President, General Manager

Keith N. Bartlam
Vice President, Sales & Marketing

SERVICE PRODUCTS DIVISION

Stephen K. Parker
Vice President, General Manager

**RIEDEL PACKAGING PAPERS
DIVISION**

Frederick T. Dalrymple
Vice President, General Manager

Orrin B. Clifford
Vice President, Sales & Marketing

H. P. SMITH DIVISION

James L. Rooney
Vice President, General Manager

Joseph T. Webb
Vice President, Manufacturing

TOWEL & TISSUE BUSINESS

Ronald L. Singer
Senior Vice President, Group Executive

Robert G. Murphy
Vice President, Technology

Fay K. Billings, Jr.
*Vice President,
Controller & Management
Information Systems*

**CONSUMER TOWEL & TISSUE
BUSINESS**

Paul P. Bova
Vice President, General Manager

Richard B. Elder
Vice President, Marketing

Thomas J. McGrail
Vice President, Sales

**AWAY-FROM-HOME TOWEL &
TISSUE BUSINESS**

Richard H. Schacht
Vice President, General Manager

John P. Garfinkel
*Vice President,
Sales & Business Management*

Kenneth F. Vuylsteke
Vice President, Marketing

PAPERBOARD BUSINESS

Stephen L. Kessler
*Vice President,
Bleached Paperboard*

MANUFACTURING

Clifford L. Lueck
Vice President, Manufacturing

Harry A. Barber
*Vice President,
Manufacturing, Western Operations*

Charles A. Warren
*Vice President,
Resident Manager, Halsey Mill*

George E. Rogers
Vice President, Southern Operations

James W. Malone
Vice President, Manufacturing

Kenneth E. Sievert
*Vice President,
Northeast Operations, Away-From-Home*

George J. Wagner
Vice President, Lake States Operations

Joseph P. Broz
Vice President, Northeast Operations

NONWOVENS DIVISION

Charles E. Eberle
Vice President, General Manager

Harvey L. Lowd
*Vice President,
General Manager, Engineered Fabrics*

Peter M. Van Brunt
*Vice President,
General Manager, Converted Products*

Thomas F. Gilmore
Vice President, Research & Development

Dennis E. Wood
Vice President, Technology Engineering

HJR FIBERWEB AB*

Ulf Scharin
Managing Director

KAYSERSBERG, S.A.*

Marcel Kilfiger
Chairman, Chief Executive Officer

**CONSUMER PRODUCTS /
OPERATING HEADQUARTERS**

Daniel Zumino
*Senior Vice President, General Manager,
Marketing & Sales*

Raymond Pigneul
*Senior Vice President, General Manager,
Manufacturing*

**PROFESSIONAL PRODUCTS /
OPERATING HEADQUARTERS**

Paul Mazars
Senior Vice President, General Manager

**CARDBOARD, PACKAGING &
PLASTICS / OPERATING
HEADQUARTERS**

Jean-Jacques Fuhrer
Senior Vice President, General Manager

TECHNOLOGY

Maurice LeBrun
Corporate Vice President

**R&D AND INTERNATIONAL
BUSINESS DEVELOPMENT**

Guy Goldstein
Corporate Vice President

CORPORATE SECRETARY

Jean-Pierre Mattle
Vice President

*50% Joint Venture

Operating Locations and Joint Ventures





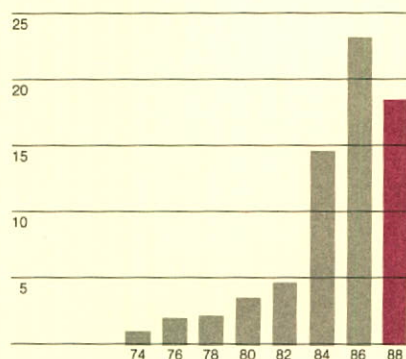
Investor Information

Growth in Market Value

When James River's common stock was first offered to the public in 1973, 100 shares sold for \$1,200. By virtue of five stock splits over the 15 years since 1973, those 100 shares had grown to 757 shares as of April 24, 1988, and at that date had a market value of \$18,640. This represents a compound growth rate of 20%.

MARKET VALUE OF 100 SHARES*

(In Thousands of Dollars)



*Based on 100 Shares Bought in 1973

Stock Listing Information

James River's common stock, Series K Preferred Stock and Series L Preferred Stock are listed on the New York Stock Exchange.

Ticker symbols:

Common—JR

Series K—JR Pr K

Series L—JR Pr L

Newspaper stock listings:

Common—JRIriver

Series K—JRIvr pf

Series L—JRIvr pf

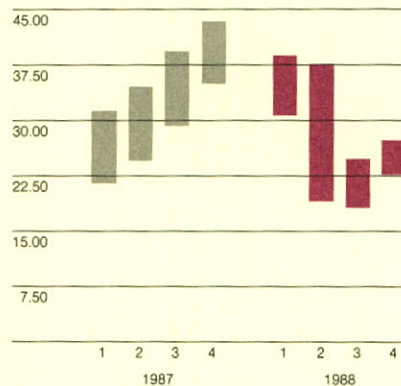
New York Stock Exchange

Market Price Ranges

The high and low closing prices of James River's common stock for the periods indicated were as follows:

QUARTERLY MARKET PRICE RANGE PER SHARE

(In Dollars)



Shareholders of Record

As of June 22, 1988, there were approximately 23,000 common shareholders of record.

Shares Outstanding

Common Stock, \$.10 par value; 150,000,000 shares authorized.

Shares outstanding:

April 24, 1988—81,193,394

April 26, 1987—82,353,560

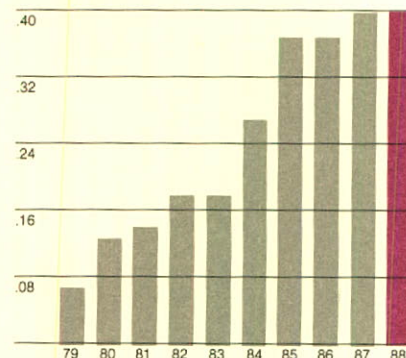
Dividends

While the Company believes it is in the best interest of shareholders to retain most of its earnings for reinvestment, the current intention is to continue to increase common dividends commensurate with growth in earnings and strength of financial position.

In June 1988, the Board of Directors declared a quarterly dividend of \$.12 per share, a 20% increase over the previous quarterly rate of \$.10 per share. This quarterly rate represents \$.48 per share on an annualized basis.

COMMON STOCK CASH DIVIDENDS PER SHARE

(In Dollars)



Ten-Year Compound Growth Rate 29.6%

Corporate Information

Annual Meeting of Shareholders:

Thursday, August 11, 1988 at 4:00 p.m.
Carpenter Center for the Performing Arts
600 East Grace Street
Richmond, Virginia 23219

Shareholders of record at the close of business on June 22, 1988 receive formal notice of the Annual Meeting of Shareholders, a proxy statement and proxy which are mailed with the Annual Report.

Executive Office:

James River Corporation of Virginia
P.O. Box 2218, Tredegar Street
Richmond, Virginia 23217
Telephone: (804) 644-5411

General Counsel:

McGuire, Woods, Battle & Boothe
One James Center
Richmond, Virginia 23219

Independent Auditors:

Coopers & Lybrand
Suite 1000
Seventh and Franklin Building
Richmond, Virginia 23219

Transfer Agent and Registrar:

Sovran Bank, N.A.
Corporate Trust Department
P.O. Box 26904
Richmond, Virginia 23261

Inquiries concerning transfer requirements, lost certificates, dividend payments, change of address and account status should be directed to the Sovran Shareholder Services Department, (804) 788-2109.

Form 10-K Available:

A copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission for fiscal 1988 will be available without charge after August 10, 1988 by writing to the Assistant Treasurer at the Executive Office.

Financial Information:

Investors, stockbrokers, security analysts and others desiring financial information about James River should contact Karen M. L. Whelan, Assistant Treasurer, (804) 649-4377.

Corporate Information:

Additional corporate information may be obtained by writing to Stephen H. Garnett, Vice President, Public Affairs at the Executive Office.

An Equal Opportunity/Affirmative Action Employer

Production Notes

This year's annual report is printed on James River papers.

Cover Stock: Curtis Flannel, Brilliant, basis 80.

Text Stock: Pages 1-24: Capistrano II, gloss, basis 100.

Pages 25-52: Curtis Brightwater, riblaid, white, basis 80.

Printing Process:

Cover—Multi-level, blind-embossed, stamped with metallic silver foil and metallic burgundy foil.
Printed with black, grey and mauve inks. Printed sheet fed lithography.

Text—Halftones, laser scanned separated. Four color process with three additional PMS ink selections.
Printed web offset lithography.

Bindery: Perfect bound with cover letterpress scored.



**JAMES RIVER
CORPORATION**

P.O. Box 2218,
Richmond, VA 23217