INTERNATIONAL PAPER CO /NEW/

FORM 10-K
(Annual Report)

Filed 03/28/97 for the Period Ending 12/31/96

Address	6400 POPLAR AVENUE MEMPHIS, TN 38197
Telephone	901-419-7000
CIK	0000051434
Symbol	IP
SIC Code	2621 - Paper Mills
Industry	Paper & Paper Products
Sector	Basic Materials
Fiscal Year	12/31

INTERNATIONAL PAPER CO /NEW/

FORM 10-K
(Annual Report)

Filed 3/28/1997 For Period Ending 12/31/1996

Address	400 ATLANTIC STREET
	STAMFORD, Connecticut 06921
Telephone	203-541-8000
CIK	0000051434
Industry	Paper & Paper Products
Sector	Basic Materials
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR FISCAL YEAR ENDED DECEMBER 31, 1996
COMMISSION FILE NO. 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of Company as specified in its charter)

NEW YORK (State or other jurisdiction of incorporation or organization)	13-0872805 (I.R.S. Employee Identification No.)
TWO MANHATTANVILLE ROAD, PURCHASE, N.Y. (Address of principal executive offices)	10577 (Zip Code)

COMPANY'S TELEPHONE NUMBER, INCLUDING AREA CODE: 914-397-1500

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Cumulative $4 Preferred Stock, without par value.....	--
Common Stock, $1 per share par value.....	New York Stock Exchange
5 1/8% Debentures due 2012.....	New York Stock Exchange

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes) No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405, of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

The Aggregate market value of the common stock of the Company outstanding as of February 28, 1997, held by non-affiliates of the Company was $11,386,671,055, calculated on the basis of the closing price on the Composite Tape on February 28, 1997. For this computation, the Company has excluded the market value of all common stock beneficially owned by all executive officers and directors of the Company and their associates as a group and treasury stock. Such exclusion is not to signify in any way that members of this group are "affiliates" of the Company.

The number of shares outstanding of the Company's common stock, as of February 28, 1997:

OUTSTANDING	IN TREASURY
300,699,457	498,663

The following documents are incorporated by reference into the parts of this report indicated below:

1996 ANNUAL REPORT TO SHAREHOLDERS (PAGE 1 AND PAGES 15 THROUGH 60)	PARTS I, II AND IV
PROXY STATEMENT, DATED MARCH 28, 1997	PART III

PART I

ITEM 1. BUSINESS

GENERAL

International Paper Company, (referred to subsequently as the "Company" or "International Paper") a New York corporation incorporated in 1941 as the successor to the New York corporation of the same name organized in 1898, is a global paper and forest products company that produces printing and writing papers, pulp, paperboard and packaging and wood products. It also manufactures specialty items including tissue products; photographic films, papers and equipment; nonwovens; specialty chemicals; and specialty panels and laminated products. The Company also distributes printing and writing papers and other products in the United States, Europe and the Pacific Rim.

In the United States at December 31, 1996, the Company operated 27 pulp, paper and packaging mills, 60 converting and packaging plants, 34 wood products facilities, 13 specialty panels and laminated products plants, 6 nonwoven products facilities, 3 imaging products facilities and 5 specialty chemicals plants. Production facilities at December 31, 1996 in Europe, Asia, Latin America and Canada included 15 pulp, paper and packaging mills, 32 converting and packaging plants, one wood products plant, 4 specialty panels and laminated products plants, 3 nonwoven products facilities, 5 imaging products facilities and 5 specialty chemicals plants. The Company distributes printing, packaging, graphic arts and industrial supply products, primarily manufactured by other companies, through over 300 distribution branches located primarily in the United States, and also engages in oil and gas and real estate activities in the United States. At December 31, 1996, the Company controlled approximately 6.4 million acres of forestlands in the United States.

Through its acquisition of Carter Holt Harvey, the Company, primarily in New Zealand and Australia, operates 6 mills producing pulp, paper, packaging and tissue products, 29 converting and packaging facilities, 54 wood products manufacturing and distribution facilities, and 7 building products plants. Carter Holt Harvey distributes paper and packaging products through 17 distribution branches located in New Zealand and Australia. In New Zealand, Carter Holt Harvey controls approximately 800,000 acres of forestlands.

On March 12, 1996, the Company completed the merger with Federal Paper Board (Federal), a diversified forest and paper products company. Under the terms of the merger agreement, Federal shareholders received, at their election and subject to certain limitations, either $55 in cash or a combination of cash and International Paper common stock worth $55 for each share of Federal common stock. To complete the merger, Federal shares were acquired for approximately $1.3 billion in cash and $1.4 billion in International Paper common stock, and approximately $800 million of debt was assumed.

In August 1996, the Company acquired Forchem, a tall oil and turpentine processor in Finland. In September 1996, Carter Holt Harvey, a consolidated subsidiary, acquired Forwood Products, the timber processing business of the South Australian Government.

In late April 1995, the Company acquired approximately 26% of Carter Holt Harvey, a New-Zealand based forest and paper products company for $1.1 billion. The acquisition increased International Paper's ownership to just over 50%. As a result, Carter Holt Harvey was consolidated into International Paper's financial statements beginning on May 1, 1995. Prior to this date the equity accounting method was utilized.

In January 1995, the assets of both Seaman-Patrick and Carpenter Paper Companies, two Michigan-based paper distribution companies, were acquired by issuing approximately 988,000 shares of common stock. In September, Micarta, the South Carolina-based high-pressure laminates business of Westinghouse,

was acquired. In October, the Company purchased the inks and adhesives resin business of DSM located in Niort, France.

In December 1994, the Company acquired additional stock of Zanders Feinpapiere AG. Also in December, a merger was completed with Kirk Paper Corporation, a California-based paper distribution company.

With the exception of Kirk Paper Corporation, which was accounted for as a pooling-of-interests, all of the 1996, 1995 and 1994 acquisitions were accounted for using the purchase method. The operating results of these mergers and acquisitions have been included in the consolidated statement of earnings from the dates of acquisition.

A further discussion of mergers and acquisitions can be found on pages 37, 38 and 49 of the Annual Report, which information is incorporated herein by reference.

From 1991 through 1996, International Paper's capital expenditures approximated $7.5 billion, excluding mergers and acquisitions. These expenditures reflect the continuing efforts to improve product quality and environmental performance, lower costs, expand production capacity, and acquire and improve forestlands. Capital spending in 1996 was approximately $1.4 billion and is budgeted to be approximately $1.2 billion in 1997. A further discussion of capital expenditures can be found on pages 37 and 38 of the Annual Report, which information is incorporated herein by reference.

The Company, primarily through its majority-owned subsidiary, IP Timberlands, Ltd. (IPT), a Texas limited partnership, and the merger with Federal, controlled approximately 6.4 million acres of forestlands in the United States at December 31, 1996. IPT controlled approximately 5.6 million acres of forestlands in the United States at December 31, 1996. IPT was formed to succeed to substantially all of International Paper's forestlands business for the period 1985 through 2035 unless earlier terminated. Through its ownership of Carter Holt Harvey, International Paper controls approximately 800,000 acres of forestlands in New Zealand.

On March 29, 1996, IPT completed the sale of a 98% general partnership interest in a subsidiary partnership that owns approximately 300,000 acres of forestlands located in Oregon and Washington. Included in the net assets of the partnership interest sold were forestlands, roads and $750 million of long-term debt. As a result of this transaction, International Paper recognized in its first-quarter consolidated results a $592 million pre-tax gain ($336 million after taxes and minority interest expense or $1.25 per share). IPT and International Paper retained nonoperating interests in the partnership.

Also in the first quarter of 1996, the Company's Board of Directors authorized a series of management actions to restructure and strengthen existing businesses that resulted in a pre-tax charge to earnings of $515 million ($362 million after taxes or $1.35 per share). The charge included $305 million for the write-off of certain assets, $100 million for asset impairments (related to the adoption of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of"), $80 million in associated severance costs and $30 million of other expenses, including the cancellation of leases. Accruals for one-time cash costs, which included severance and other expenses, totaled $110 million. Approximately $34 million of these costs were incurred in 1996 and the remainder will be spent in 1997.

In the fourth quarter of 1996, the Company recorded a $165 million pre-tax charge ($105 million after taxes or $.35 per share) for the write-down of its investment in Scitex, a company that markets digital communication products, and to record its share of a restructuring charge announced by Scitex in November 1996.

FINANCIAL INFORMATION CONCERNING INDUSTRY SEGMENTS

The financial information concerning segments is set forth on pages 18, 19, 22, 23, 26, 27, 30, 31, 34, 35, 37 and 42 of the Annual Report, which information is incorporated herein by reference.

FINANCIAL INFORMATION ABOUT INTERNATIONAL AND DOMESTIC OPERATIONS

The financial information concerning international and domestic operations and export sales is set forth on page 41 of the Annual Report, which information is incorporated herein by reference.

COMPETITION AND COSTS

Despite the size of the Company's manufacturing capacities for paper, paperboard, packaging and pulp products, the markets in all of the cited product lines are large and highly fragmented. The markets for wood and specialty products are similarly large and fragmented. There are numerous competitors, and the major markets, both domestic and international, in which the Company sells its principal products are very competitive. These products are in competition with similar products produced by others, and in some instances, with products produced by other industries from other materials.

Many factors influence the Company's competitive position, including prices, costs, product quality and services. Information on the impact of prices and costs on operating profits is contained on pages 18, 19, 22, 23, 26, 27, 30, 31, 34, 35 and 36 through 40 of the Annual Report, which information is incorporated herein by reference.

MARKETING AND DISTRIBUTION

Paper and packaging products are sold through the Company's own sales organization directly to users or converters for manufacture. Sales offices are located throughout the United States as well as internationally. Significant volumes of products are also sold through paper merchants and distributors, including facilities in the Company's distribution network.

The Company's U.S. production of lumber and plywood is marketed through independent and Company-owned distribution centers. Specialty products are marketed through various channels of distribution.

DESCRIPTION OF PRINCIPAL PRODUCTS

The Company's principal products are described on pages 2 through 35 of the Annual Report, which information is incorporated herein by reference.

Production of major products for 1996, 1995 and 1994 was as follows:

PRODUCTION BY PRODUCTS
(UNAUDITED)

	1996(D,F)	1995(E,F)	1994(F)
Printing Papers (in thousands of tons)			
Business Papers	3,875	3,432	3,173
Coated Papers	1,089	1,136	1,036
Market Pulp(A)	2,007	1,733	1,611
Newsprint	94	91	68
Packaging (In thousands of tons)			
Containerboard	2,702	2,387	2,164
Bleached Packaging Board	1,885	1,167	1,044
Industrial Papers	667	653	610
Industrial and Consumer Packaging(B)	3,313	2,952	2,946
Speciality Products (in thousands of tons)			
Tissue	126	68	--
Forest Products (In millions)			
Panels (sq. ft. 3/8" basis)(C)	1,218	936	882
Lumber (board feet)	1,815	1,104	953
MDF (sq. ft. 3/4" basis)	285	263	138
Particleboard (sq. ft. 3/4" basis	192	182	176

(A) This excludes market pulp purchases.

(B) A significant portion of this tonnage was fabricated from paperboard and paper produced at the Company's own mills and included in the containerboard, bleached packaging board and industrial papers amounts in this table.

(C) Panels include plywood and oriented strand board.

(D) Includes Federal Paper Board from March 12, 1996 and Carter Holt Harvey for a full year.

(E) Includes amounts for Carter Holt Harvey as applicable since May 1, 1995.

(F) Certain reclassifications and adjustments have been made to current- and prior-year amounts.

RESEARCH AND DEVELOPMENT

The Company operates research and development centers at Sterling Forest, New York; Loveland, Ohio; Mobile, Alabama; Panama City, Florida; Erie, Pennsylvania; Kaukauna, Wisconsin; Binghamton, New York; South Walpole, Massachusetts; St. Charles, Illinois; Orange Park, Florida; Holyoke, Massachusetts; Odenton, Maryland; Mobberley, United Kingdom; Morley, United Kingdom; Munich, Germany; Fribourg, Switzerland; Saint-Priest, France; Annecy, France; a regional center for applied forest research in Bainbridge, Georgia; a forest biotechnology center in Rotorua, New Zealand; and several product laboratories. Research and development activities are directed to short-term, long-term and technical assistance needs of customers and operating divisions; process, equipment and product innovations; and improvement of profits through tree generation and propagation research. Activities include studies on improved forest species and management; innovation and improvement of pulping, bleaching, chemical recovery, papermaking and coating processes; packaging design and materials development; innovation and improvement of photographic materials and processes, printing plates, pressroom/plate chemistries and plate processors; reduction of environmental discharges; re-use of raw materials in manufacturing processes; recycling of consumer and packaging paper products; energy conservation; applications of computer controls to manufacturing operations; innovations and improvement of products; and development of various new products. Product development efforts specifically address product safety as well as the minimization of solid waste. The cost to the Company of its research and development operations was $112.5 million in 1996, $110.8 million in 1995 and $102.6 million in 1994.

ENVIRONMENTAL PROTECTION

Controlling pollutants discharged into the air, water and groundwater to avoid adverse impacts on the environment, making continual improvements in environmental performance and achieving 100% compliance with applicable law regulations are continuing objectives of the Company. The Company has invested substantial funds to modify facilities to assure compliance, and plans to make substantial capital expenditures for these purposes in the future. The completed merger with Federal Paper Board will increase environmental expenditures. The amount of these expenditures in 1996 and those for future years are included in the discussion in the following paragraphs.

A total of $130 million was spent in 1996 to control pollutant releases into the air and water and to assure environmentally sound disposal of solid and hazardous waste. The Company expects to spend approximately $140 million in 1997 for similar capital programs. Amounts to be spent for environmental control facilities in future years will depend on new laws and regulations, changes in legal requirements and changes in environmental concerns. Taking these uncertainties into account, the Company's preliminary estimate for additional environmental appropriations during the period 1998 through 1999 is in the range of $350 million to $580 million.

In December 1993, the United States Environmental Protection Agency (EPA) proposed new pulp and paper mill standards for air emissions and water discharges to be met three years after final promulgation (the "Cluster Regulations"). EPA also promulgated regulations implementing the Great Lakes Initiative ("GLI") covering water quality and permitting implementation procedures. Future spending will be heavily influenced by the final Cluster Regulations and, in the case of the GLI, on how the individual Great Lakes states implement the program. In 1994, the Company estimated future capital spending to comply with the Cluster Regulations and the GLI to be between $700 million and $1.5 billion depending upon the methods and deadlines allowed by the final regulations to meet requirements. There have been extensive discussions with Congress and the EPA over the last three years, but there have been no publicly announced changes to the proposed Cluster Regulations. Nevertheless, there is reason to expect that changes will soon be announced and that these estimates will be adjusted downward, and expenditures will occur over a longer time frame than the three years in the current proposal. In 1994, the Company estimated that annual operating costs, excluding depreciation, would increase between $60 million and $120 million when these regulations are fully implemented. This estimate will also be adjusted to the extent the EPA makes moderating changes.

The Company expects the significant effort it has made in the analysis of environmental issues and the development of environmental control technology to enable it to keep costs for compliance with environmental regulations, at, or below, industry averages.

A further discussion of environmental issues can be found on pages 39 and 40 of the Annual Report, which information is incorporated herein by reference.

As of December 31, 1996, $981 million of industrial and pollution control revenue bonds, secured by Company contractual obligations, were outstanding in 63 political subdivisions of various states, counties and municipalities, primarily to finance environmental control projects located at or in conjunction with the Company's plants in those subdivisions. It is contemplated that additional industrial revenue bonds will be issued from time to time to finance other environmental control projects, provided tax law changes do not curtail the Company's access to the municipal bond market.

EMPLOYEES

As of December 31, 1996, the Company had approximately 87,000 employees, of whom approximately 56,000 were located in the United States and the remainder overseas. Of the domestic employees, approximately 38,000 are hourly employees, approximately 17,000 of whom are represented by the United Paperworkers International Union.

During 1996, new labor agreements were reached at the Pineville, Texarkana, Thilmany, Ticonderoga, and Woronoco mills. Currently, negotiations are still in progress at the Augusta and Sprague mills of the former Federal Paper Board, and the Gardiner Mill.

During 1997, labor agreements are scheduled to be negotiated at the following mills: Mobile, Riverdale, Oswego, Millers Falls, and Vicksburg.
During 1998, labor agreements are scheduled to be negotiated at the following mills:
Louisiana, Moss Point, and Pine Bluff.

During 1996, labor agreements expired in 13 packaging plants, four wood products plants and nine distribution operations. New labor agreements were negotiated at each location except one packaging plant, two wood products plants and three distribution operations where negotiations were still in progress at year end. Two packaging plants have contracts open from a previous year.

RAW MATERIALS

For information as to the sources and availability of raw materials essential to the Company's business, see Item 2 "PROPERTIES."

ITEM 2. PROPERTIES.

FORESTLANDS

The principal raw material used by International Paper is wood in various forms. At December 31, 1996, the Company controlled approximately 6.4 million acres of forestlands in the United States. Of this acreage, IP Timberlands, Ltd. ("IPT"), a limited partnership in which the Company has a majority ownership interest, controlled approximately 5.6 million acres of forestlands in the U.S. An additional 800,000 acres of Forestlands in New Zealand are held through Carter Holt Harvey, a consolidated subsidiary of International Paper. In March 1996, IPT sold a 98% general partnership interest in a subidiary partnership owning all of IPT'S Western region assets, which included approximately 300,000 acres of forestlands in Oregon and Washington.

During 1996, the U.S. forestlands supplied 1.7 million cords of roundwood to the Company's U.S. facilities. This amounted to the following percentages of the roundwood requirements of its mills and forest products facilities: 13% in its Northern mills, 15% in its Southern mills and none in its Western mill. The balance was acquired from other private industrial and nonindustrial forestland owners, with only an insignificant amount coming from public lands of the United States government. In addition, 4.4 million cords of wood were sold to other users in 1996. In November 1994, the Company adopted the Sustainable Forestry Principles developed by the American Forest and Paper Association in August 1994.

MILLS AND PLANTS

A listing of the Company's production facilities can be found in Appendix I hereto, which information is incorporated herein by reference.

The Company's facilities are in good operating condition and are suited for the purposes for which they are presently being used. The Company continues to study the economics of modernizing or adopting other alternatives for higher cost facilities. Further discussions of new mill and plant projects can be found on pages 37 and 38 of the Annual Report, which information is incorporated herein by reference.

CAPITAL INVESTMENTS AND DISPOSITIONS

Given the size, scope and complexity of its business interests, International Paper continuously examines and evaluates a wide variety of business opportunities and planning alternatives, including possible acquisitions and sales or other dispositions of properties. Planned capital investments for 1997, as of December 31, 1996 are set forth on pages 37 and 38 of the Annual Report, which information is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS.

DIOXIN LITIGATION

Since 1991, the Company has reported on lawsuits which alleged that the Company had polluted various bodies of water in Mississippi, Louisiana, Arkansas and Texas by discharging certain chemicals, including dioxin, thereby causing personal injury, property damage, business loss, and fear of contracting disease.

All of the lawsuits have been resolved by summary judgment in favor of the Company and are no longer pending. Therefore, the Company will no longer be reporting on these matters.

MASONITE LITIGATION

A lawsuit which has been certified as a nationwide class action was filed against the Company and Masonite Corporation, a wholly owned subsidiary of the Company (Masonite), on December 27, 1994, in Mobile County Circuit Court, Mobile, Alabama. This lawsuit alleged that hardboard siding, which is used as exterior cladding for residential dwellings and is manufactured by Masonite, fails prematurely, allowing moisture intrusion. It alleged further that the presence of moisture in turn causes the failure of the structure underneath the siding. The class consists of all owners of homes in the United States having Masonite hardboard siding manufactured after 1980. It is impossible to know how many homes have this siding, but it is estimated that there are between three and four million. The Company and Masonite were unsuccessful in their attempt to remove the case to the Federal District Court for the Southern District of Alabama on diversity grounds. The case was remanded to the Mobile County Circuit Court where a Phase I trial was conducted in August and September of 1996 to determine the sole issue of inherent product defect. The jury, in attempting to apply the various laws of all the states on a nationwide basis, returned a mixed decision that found in favor of the Company and Masonite in some jurisdictions and in favor of the plaintiffs in other jurisdictions. A Phase II trial is set for July 14, 1997 on the remaining issues in the case. The Company and Masonite feel that there are valid defenses to this case and will continue to vigorously defend all claims asserted by the Plaintiff. While any litigation has an element of uncertainty it is believed that the outcome of these proceedings and lawsuits will not have a material adverse effect on its consolidated financial position or results of operation.

ARIZONA CHEMICAL

As reported previously, Arizona Chemical Company (Arizona), a wholly owned subsidiary of the Company, was the subject of a federal investigation concerning environmental issues. On September 26, 1996, Arizona entered a plea of guilty to two counts alleging violations of the Clean Water Act at a facility in Gulfport, Mississippi, and one count alleging violations of hazardous waste requirements at a facility in Picayune, Mississippi. Pursuant to an agreement with the government, Arizona paid a criminal penalty of $2.5 million and was placed on probation for three years. Arizona also paid a civil penalty of $150,000 and restitution in the amount of $1.5 million to the Mississippi Department of Environmental Quality.

In addition to the resolution of the Arizona matter, the Company paid civil penalties related to environmental issues of $1,053,000 in 1996. Civil penalties related to these issues were $630,000 and $960,000 for the years 1995 and 1994, respectively.

OTHER LITIGATION

An order was entered on April 11, 1996, in Maine Superior Court, whereby in consideration of the payment of $175,296, the Company settled with both the State of Maine and the Town of Jay, all air emission violations that may have occurred through December 31, 1995, as well as all alleged violations of state waste water discharge and hazardous waste laws through December 31, 1995. This concluded the actions involving emissions from the Company's Adroscoggin mill's lime kiln. The Company paid and did not appeal the $22,000 penalty assessed by the Town in its order of October 14, 1993.

In 1989, Masonite Corporation, a wholly-owned subsidiary of the Company ("Masonite"), modified a production line to make a new product at a facility in Ukiah, California. The facility obtained the necessary Authority to Construct permits from the appropriate state authority. In May 1992 the EPA, Region 9, issued an order alleging that an additional Prevention of Significant Deterioration permit was required for the new product line. On April 24, 1996, a consent decree resolving this matter was entered by the U.S. District Court for the Northern District of California. The consent decree included a civil penalty of $600,000.

As of March 31, 1997, there were no other pending judicial proceedings, brought by governmental authorities against the Company, for alleged violations of applicable environmental laws or regulations. The Company is engaged in various administrative proceedings that arise under applicable environmental and safety laws or regulations, including approximately 73 active proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and comparable state laws. Most of these proceedings involve the cleanup of hazardous substances at large commercial landfills that received waste from many different sources. While joint and several liability is authorized under the CERCLA, as a practical matter, liability for CERCLA cleanups is allocated among the many potential responsible parties. Based upon previous experience with respect to the cleanup of hazardous substances and upon presently available information, the Company believes that it has no or DE MINIMUS liability with respect to 27 of these sites; that liability is not likely to be significant at 34 sites; and that estimates of liability at 12 of these sites is likely to be significant but not material to the Company's consolidated financial position or results of operations.

The Company's majority owned subsidiary, Carter Holt Harvey has an indirect shareholding of 30.05% in Chile's largest industrial company, Copec. This shareholding is held through Carter Holt Harvey's joint venture in Los Andes with Inversiones Socoroma S.A., a Chilean investment company ("Socoroma"). In late 1993, Carter Holt Harvey commenced several actions in Chilean courts challenging certain corporate governance documents of Los Andes, as well as agreements between Carter Holt Harvey's subsidiary and Socoroma. In December 1994, Socoroma commenced an arbitration action seeking to expel Carter Holt Harvey from Los Andes at a price which is less than the carrying value. Although the Company believes that the eventual resolution of this Carter Holt Harvey litigation should not have a material adverse effect on the Company, the actual resolution of each of these actions cannot be predicted because of the uncertainties involved in the litigation and arbitration proceedings.

The Company is also involved in other contractual disputes, administrative and legal proceedings and investigations of various types. While any litigation, proceeding or investigation has an element of uncertainty, the Company believes that the outcome of any proceeding, lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 1996.

SPECIAL ITEM. EXECUTIVE OFFICERS OF THE COMPANY.

INTERNATIONAL PAPER COMPANY
EXECUTIVE OFFICERS
AS OF FEBRUARY 28, 1997
INCLUDING NAME, AGE, OFFICES AND POSITIONS HELD (1) AND
BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS

John T. Dillon, 58, chairman and chief executive officer since 1996. Prior to that he was executive vice president-packaging from 1987 to 1995 when he assumed the position of president and chief operating officer.

C. Wesley Smith, 57, executive vice president--printing papers since 1992. Prior thereto he was president--International Paper Europe from 1989.

W. Michael Amick, 56, executive vice president--forest products and industrial packaging. He was vice president and group executive-specialty industrial papers from 1988 to 1992, when he became president-International Paper-Europe. He assumed his current position in February 1996.

James P. Melican, Jr., 56, executive vice president--legal and external affairs. He assumed his current position in 1991.

David W. Oskin, 54, executive vice president, consumer packaging and specialty industrial papers since 1995. He held the position of senior vice president from 1988 to 1992, when he became the chief executive officer and managing director of Carter Holt Harvey Limited of New Zealand until his current position.

Milan J. Turk, 58, executive vice president, specialty businesses. He was vice president and group executive-specialty products from 1990 until 1993, when he became senior vice president-specialty products. He assumed his current position in February, 1996.

Robert M. Byrnes, 59, senior vice president, human resources since 1989.

Thomas E. Costello, 57, senior vice president--distribution businesses since March 1997. Prior to that he was president--ResourceNet International, the Company's distribution business since 1991.

Marianne M. Parrs, 53, senior vice president and chief financial officer since 1995. She was controller-printing papers from 1985 to 1993 and then held the position of staff vice president-tax until 1995.

Andrew R. Lessin, 54, vice president and controller since 1995. Prior thereto he was the controller since 1990.

William B. Lytton, 48, vice president and general counsel. He was vice president and general counsel for GE Aerospace from 1990 to 1993; vice president and associate general counsel for Martin Marietta from 1993 to 1995; and vice president and general counsel for Lockheed Martin Electronics from 1995 to 1996. He assumed his current position in 1996.

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(1) Executive officers of International Paper are elected to hold office until the next annual meeting of the board of directors following the annual meeting of shareholders and until election of successors, subject to removal by the board.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Dividend per share data on the Company's common stock and the high and low sale prices for the Company's common stock for each of the four quarters in 1996 and 1995 are set forth on page 60 of the Annual Report and are incorporated herein by reference.

As of March 21, 1997, there were 300,865,985 holders of record of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

The comparative columnar table showing selected financial data for the Company is set forth on pages 58 and 59 of the Annual Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's review and comments on the consolidated financial statements are set forth on pages 18, 19, 22, 23, 26, 27, 30, 31, 34 and 35 through 40 of the Annual Report and are incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's consolidated financial statements, the notes thereto and the reports of the independent public accountants and Company management are set forth on pages 43 through 57 of the Annual Report and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The directors of the Company and their business experience are set forth on pages 7 through 10 of the Company's Notice of 1997 Annual Meeting and Proxy Statement, dated March 27, 1997 (the "Proxy Statement") and are incorporated herein by reference. The discussion of executive officers of the Company is included in Part I under "Executive Officers of the Company."

ITEM 11. EXECUTIVE COMPENSATION

A description of the compensation of the Company's executive officers is set forth on pages 13 through 15 and 17 through 22 of the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Company knows of no one owning beneficially more than five percent (5%) of the Company's common stock other than the following:

MERRILL LYNCH CO., INC. AND MERRILL LYNCH PIERCE FENNER & SMITH INCORPORATED	30,608,893	10.2%

As of March 13, 1997, Merrill Lynch & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are, respectively, a parent holding company and a broker-dealer registered under Section 15 of the Securities Exchange Act of 1934 (the "Act"). They, or subsidiaries, hold these shares primarily as

sponsor and investment advisor to various registered investment companies, but disclaim beneficial ownership thereof other than certain of which are held in proprietary accounts.

STATE STREET BANK & TRUST CO., N.A.	25,523,640	8.5%

As of December 31, 1996, State Street Bank & Trust Co., N.A. holds such shares as the independent trustee in trust funds for employee savings, thrift, and similar employee benefit plans of the Company and its subsidiaries ("Company Trust Funds"). In addition, State Street Bank & Trust Co., N.A. is trustee for various third party trusts and employee benefit plans and is an Investment Advisor. As a result of its holdings in all capacities, State Street Bank & Trust Co., N.A. is the record holder of 25,523,640 shares of common stock of the Company. The trustee disclaims beneficial ownership of all such shares except 3,229,706 shares of which it has sole power to dispose or to direct the disposition. The common stock held by the Company Trust Funds is allocated to participants' accounts and such stock or the cash equivalent will be distributed to participants upon termination of employment or pursuant to withdrawal rights. The trustee votes the shares of common stock held in the Company Trust Funds in accordance with the instructions of the participants; shares for which no instructions are received are voted proportionately to those shares voted by participants.

THE CAPITAL GROUP COMPANIES, INC. AND CAPITAL RESEARCH & MANAGEMENT COMPANY	15,165,000	5.0%

As of February 12, 1997 the Capital Group Companies, Inc. holds such shares as the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over these securities. The investment management companies, which include a "bank" as defined in
Section 3(a)6 of the Act and several investment advisers registered under
Section 203 of the Investment Advisers Act of 1940, provide investment advisory and management services for their respective clients which include registered investment companies and institutional accounts. The Capital Group Companies, Inc. does not have investment power or voting power over any of the securities reported here; however, The Capital Group Companies, Inc. may be deemed to "beneficially own" such securities by virtue of Rule 13d-3 under the Act. Capital Research and Management Company, an investment adviser registered under
Section 203 of the Investment Advisers Act of 1940 and wholly owned subsidiary of The Capital Group Companies, Inc., is the beneficial owner of these shares as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

COMMON STOCK HELD BY DIRECTORS AND DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP	1,622,158	0.54%

The table showing ownership of the Company's common stock held by directors and by directors and executive officers as a group is set forth on page 4 of the Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None, other than those described under Item 11.

FORWARD-LOOKING INFORMATION

THIS 1996 ANNUAL REPORT ON FORM 10-K CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS CONCERNING PROJECTED MODEST IMPROVEMENT IN EARNINGS AT INTERNATIONAL PAPER. ACTUAL RESULTS MAY DIFFER BASED PRIMARILY ON OVERALL DEMAND AND WHETHER PRICING INITIATIVES FOR VARIOUS PAPER AND PACKAGING PRODUCTS CAN BE REALIZED IN 1997 AND ANTICIPATED SAVINGS FROM RESTRUCTURING ARE ACHIEVED.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

EXHIBITS:

(11)	Statement of Computation of Per Share Earnings
(12)	Computation of Ratio of Earnings to Fixed Charges
(13)	1996 Annual Report to Shareholders of the Company
(21)	List of Significant Subsidiaries
(22)	Proxy Statement, dated March 28, 1997
(23)	Consent of Independent Public Accountants
(24)	Power of Attorney
(27)	Financial Data Schedule

REPORTS ON FORM 8-K

A Current Report on Form 8-K was filed by the Company on February 18, 1997.

FINANCIAL STATEMENT SCHEDULES

The consolidated balance sheets as of December 31, 1996 and 1995 and the related consolidated statements of earnings, cash flows and common shareholders' equity for each of the three years ended December 31, 1996 and the related Notes to Consolidated Financial Statements, together with the report thereon of Arthur Andersen LLP, dated February 7, 1997, appearing on pages 43 through 57 of the Annual Report, are incorporated herein by reference. With the exception of the aforementioned information and the information incorporated by reference in Items 1, 2 and 5 through 8, the Annual Report is not to be deemed filed as part of this report. The following additional financial data should be read in conjunction with the financial statements in the Annual Report. Schedules not included with this additional financial data have been omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

ADDITIONAL FINANCIAL DATA
1996, 1995 AND 1994

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To International Paper Company:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in the Company's 1996 Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 7, 1997. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in the accompanying index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

New York, NY

February 7, 1997

SCHEDULE II

INTERNATIONAL PAPER COMPANY AND CONSOLIDATED SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(IN MILLIONS)

FOR YEAR ENDED DECEMBER 31, 1996

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EARNINGS	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Reserves Applied Against Specific Assets Shown on Balance Sheet:					
Doubtful accounts--current.....	$ 101	$ 22	$ 0	$ (22)(A)	$ 101

FOR YEAR ENDED DECEMBER 31, 1995

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EARNINGS	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Reserves Applied Against Specific Assets Shown on Balance Sheet:					
Doubtful accounts--current.....	$ 97	$ 25	$ 0	$ (21)(A)	$ 101

FOR YEAR ENDED DECEMBER 31, 1994

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EARNINGS	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Reserves Applied Against Specific Assets Shown on Balance Sheet:					
Doubtful accounts--current.....	$ 104	$ 21	$ 0	$ (28)(A)	$ 97

(A) Primarily write-offs, less recoveries, of accounts determined to be uncollectible.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERNATIONAL PAPER COMPANY

BY:

JAMES W. GUEDRY

James W. Guedry,

VICE PRESIDENT AND SECRETARY

March 28, 1997

Pursuant to the requirements of the securities exchange act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

NAME	TITLE	DATE
JOHN T. DILLON (John T. Dillon)	Chairman of the Board, Chief Executive Officer and Director	March 28, 1997
C. WESLEY SMITH* (C. Wesley Smith)	Executive Vice President and Director	March 28, 1997
WILLARD C. BUTCHER* (Willard C. Butcher)	Director	March 28, 1997
ROBERT J. EATON* (Robert J. Eaton)	Director	March 28, 1997
STANLEY C. GAULT* (Stanley C. Gault)	Director	March 28, 1997
JOHN A. GEORGES* (John A. Georges)	Director	March 28, 1997
THOMAS C. GRAHAM* (Thomas C. Graham)	Director	March 28, 1997
JOHN R. KENNEDY* (John R. Kennedy)	Director	March 28, 1997
DONALD F. MCHENRY* (Donald F. McHenry)	Director	March 28, 1997
PATRICK F. NOONAN* (Patrick F. Noonan)	Director	March 28, 1997

NAME	TITLE	DATE
JANE C. PFEIFFER* (Jane C. Pfeiffer)	Director	March 28, 1997
EDMUND T. PRATT, JR.* (Edmund T. Pratt, Jr.)	Director	March 28, 1997
CHARLES R. SHOEMATE* (Charles R. Shoemate)	Director	March 28, 1997
ROGER B. SMITH* (Roger B. Smith)	Director	March 28, 1997
MARIANNE M. PARRS (Marianne M. Parrs)	Senior Vice President and Chief Financial Officer	March 28, 1997
ANDREW R. LESSIN (Andrew R. Lessin)	Vice President and Controller and Chief Accounting Officer	March 28, 1997

*By: JAMES W. GUEDRY
(James W. Guedry,
ATTORNEY-IN-FACT)

APPENDIX I

1996 LISTING OF FACILITIES

PRINTING PAPERS

BUSINESS PAPERS, COATED PAPERS AND PULP
DOMESTIC:
Mobile, Alabama
Selma, Alabama

(Riverdale Mill)

Camden, Arkansas
Pine Bluff, Arkansas
Augusta, Georgia
Bastrop, Louisiana

(Louisiana Mill)

Springhill, Louisiana

(C & D Center)

Jay, Maine

(Androscoggin Mill)

Millers Falls, Massachusetts
West Springfield,
Massachusetts
Westfield, Massachusetts

(C & D Center)

Woronoco, Massachusetts
Moss Point, Mississippi
Natchez, Mississippi
Corinth, New York

(Hudson River Mill)

Ticonderoga, New York
Riegelwood, North Carolina
Hamilton, Ohio
Erie, Pennsylvania
Lock Haven, Pennsylvania
Georgetown, South Carolina
Texarkana, Texas
INTERNATIONAL:
Cali, Colombia
Coloto, Colombia
Clermont-Ferrand, France

(Corimex Mill)

Docelles, France
(Lana Mill)

Grenoble, France
(Lancey and Pont De Claix
Mills)

Maresquel, France
Saillat, France
Saint Die, France

(Anould Mill)

Strasbourg, France
(La Robertsau Mill)

Bergisch Gladbach, Germany
(Gorhrsmuhle Mill)

Duren, Germany
(Reflex Mill)

Kinleith, New Zealand
Mataura, New Zealand
Kwidzyn, Poland
Inverurie, Scotland

PACKAGING
CONTAINERBOARD
DOMESTIC:
Mansfield, Louisiana
Pineville, Louisiana
Vicksburg, Mississippi
Oswego, New York
Gardiner, Oregon
INTERNATIONAL:
Arles, France
Kinleith, New Zealand
Penrose, New Zealand

CORRUGATED CONTAINER
DOMESTIC:
Mobile, Alabama
Russellville, Arkansas
Carson, California
Modesto, California
San Jose, California
Stockton, California
Putnam, Connecticut
Auburndale, Florida
Chicago, Illinois
Shreveport, Louisiana
Springhill, Louisiana
Detroit, Michigan
Minneapolis, Minnesota
Geneva, New York
Statesville, North Carolina
Cincinnati, Ohio
Wooster, Ohio
Mount Carmel, Pennsylvania
Georgetown, South Carolina
Nashville, Tennessee
Dallas, Texas
Edinburg, Texas
El Paso, Texas
Delavan, Wisconsin
Fond du Lac, Wisconsin
INTERNATIONAL:
Las Palmas, Canary Islands
Suva, Fiji
Arles, France
Chalon-sur-Saone, France
Chantilly, France
Creil, France

LePuy, France
Mortagne, France
Guadeloupe, French West Indies
Bellusco, Italy
Catania, Italy
Pedemonte, Italy
Pomezia, Italy
San Felice, Italy
Auckland, New Zealand
Christchurch, New Zealand
Hamilton, New Zealand
Hastings, New Zealand
Levin, New Zealand
Nelson, New Zealand
Barcelona, Spain
Bilbao, Spain
Valladolid, Spain
Thrapston, United Kingdom
Winsford, United Kingdom
Fiber Converting Plant
Auckland, New Zealand

BLEACHED BOARD

DOMESTIC:

Pine Bluff, Arkansas
Sprague, Connecticut
Augusta, Georgia
Moss Point, Mississippi
Georgetown, South Carolina
Riegelwood, North Carolina
Texarkana, Texas

INTERNATIONAL:

Whaketane, New Zealand

LIQUID PACKAGING

DOMESTIC:

Turlock, California
Plant City, Florida
Atlanta, Georgia
Cedar Rapids, Iowa
Kansas City, Kansas
Framingham, Massachusetts
Kalamazoo, Michigan
Raleigh, North Carolina
Philadelphia, Pennsylvania

INTERNATIONAL:

Itu, Brazil
Edmonton, Alberta, Canada
London, Ontario, Canada
Longueuil, Quebec, Canada
Shanghai, China
Santiago, Dominican Republic
St. Priest, France
Kingston, Jamaica

Hyogo, Japan
Seoul, Korea
Taipei, Taiwan
Caracas, Venezuela
IMPERIAL BONDWARE
Visalia, California
Shelbyville, Illinois
Kenton, Ohio
Menomonee Falls, Wisconsin
FOLDING CARTON
DOMESTIC:
La Grange, Georgia
Thomaston, Georgia
Clinton, Iowa
Hopkinsville, Kentucky
Durham, North Carolina
Hendersonville, North
Carolina
Wilmington, North Carolina
Cincinnati, Ohio
Richmond, Virginia
INTERNATIONAL:
Auckland, New Zealand
Christchurch, New Zealand
Palmerston North,
New Zealand
LABEL
Bowling Green, Kentucky
KRAFT PAPER
Mobile, Alabama
Camden, Arkansas
Moss Point, Mississippi
GROCERY BAGS & SACKS
Mobile, Alabama
Jackson, Tennessee
MULTIWALL BAGS
DOMESTIC:
Camden, Arkansas
Fordyce, Arkansas
Pittsburg, Kansas
Wilmington, Ohio
INTERNATIONAL:
Auckland, New Zealand
Palmerston North,
New Zealand
PLASTIC PACKAGING
DOMESTIC:
Janesville, Wisconsin
INTERNATIONAL:
Santiago, Chile
Albany, New Zealand
Auckland, New Zealand
Hamilton, New Zealand
Hastings, New Zealand
Wellington, New Zealand

DISTRIBUTION

WHOLESALE AND RETAIL
DISTRIBUTION(303 distribution
branches)
RESOURCENET INTERNATIONAL
DOMESTIC:
Stores Group
Chicago, Illinois
150 locations nationwide
Dillard Paper

Greensboro, North Carolina
22 branches in the Middle
Atlantic States and
Southeast
Dixon Paper Company
Denver, Colorado
12 branches in the West
and Midwest
Specialty Business Group
Erlanger, Kentucky
12 branches in
New England and
Middle Atlantic States,
Midwest,
South and West
Ingram Paper
City of Industry,
California
6 locations in the West,
Southwest and Hawaii
Kirk Paper Company
Downey, California
2 locations in the West
Leslie Paper
Minneapolis, Minnesota
9 locations in the Midwest
Northeast Region
Erlanger, Kentucky
36 branches
in New England,
Middle Atlantic States,
Midwest and District of
Columbia
Western Pacific
Portland, Oregon
3 locations in the
Northwest
Western Paper Company
Overland Park, Kansas
22 branches in the West,
Midwest and South
INTERNATIONAL:
Chihuahua,
Chihuahua, Mexico
3 locations

OTHER INTERNATIONAL:

Aussedat Rey France
Distribution S.A., Pantin,
France
Recom Papers
Nijmegen, Netherlands
Scaldia Papier BV,
Nijmegen, Netherlands
Aalbers Paper Products
Veenendaal, Netherlands
Paper Merchant, Warehousing
and Distribution Centers,
Australia, 4 locations
New Zealand, 13 locations
Poland, 5 locations

FOREST PRODUCTS
FORESTLANDS
DOMESTIC:
Approximately 6.4 million

acres in the South and
Northeast
INTERNATIONAL:
Approximately 800,000 acres
in New Zealand

WOOD PRODUCTS
DOMESTIC:
Maplesville, Alabama
Tuscaloosa, Alabama
Gurdon, Arkansas
Leola, Arkansas
Whelen Springs, Arkansas
Augusta, Georgia
Washington, Georgia
DeRidder, Louisiana
Springhill, Louisiana
Morton, Mississippi
Wiggins, Mississippi
Joplin, Missouri
Pleasant Hill, Missouri
Madison, New Hampshire
Riegelwood, North Carolina
Pilot Rock, Oregon
Johnston, South Carolina
Newberry, South Carolina
Sampit, South Carolina
Henderson, Texas
Jefferson, Texas
Mineola, Texas
Nacogdoches, Texas
New Boston, Texas
Danville, Virginia
Building Products
Ukiah, California
Lisbon Falls, Maine
Laurel, Mississippi
Towanda, Pennsylvania

Fiberboard
Spring Hope, North Carolina
Marion, South Carolina
Particleboard
Stuart, Virginia
Waverly, Virginia
Slaughter
Dallas, Texas
2 branches in the
Southwest and Northwest

International:
Masonite Africa Limited
Estcourt Plant
Mt. Gambier, South Australia
Nangwarry, South Australia
Myrtleford,
New South Wales,
Australia
Mt. Druit, New South Wales,
Australia
Benella,
Victoria, Australia
Box Mill, Victoria, Australia
Auckland, New Zealand
Christchurch, New Zealand
Kopu, New Zealand
Nelson, New Zealand
Putaruru, New Zealand
Rangiora, New Zealand
Rotorua, New Zealand
Taupo, New Zealand
Thames, New Zealand
Topuni, New Zealand
Tokoroa, New Zealand
Building Supply
Retail Outlets, 36 branches
in New Zealand

REALTY PROJECTS
Haig Point Plantation
Daufuskie Island,
South Carolina

SPECIALTY PRODUCTS
TISSUE
Mills:
Box Hill, Victoria, Australia
Kawerau, New Zealand
Klucze, Poland
Plants:
Box Hill, Victoria, Australia
Clayton, Victoria, Australia
Keon Park, Victoria,
Australia
Suva, Fiji
Auckland, New Zealand (three
plants)
Christchurch, New Zealand
Te Rapa, New Zealand

NONWOVENS
DOMESTIC:
Athens, Georgia
Griswoldville, Massachusetts
Walpole, Massachusetts
Lewisburg, Pennsylvania

Bethune, South Carolina
Green Bay, Wisconsin
INTERNATIONAL:
Liege, Belgium
Toronto, Ontario, Canada
San Jose Ituebide, Mexico

IMAGING PRODUCTS
DOMESTIC:
Jacksonville, Florida
Holyoke, Massachusetts
Binghamton, New York
INTERNATIONAL:
Melbourne, Australia
Munich, Germany
Mobberley, Great Britain
Morley, Great Britain
Fribourg, Switzerland

CHEMICALS
DOMESTIC:
Panama City, Florida
Pensacola, Florida
Port St. Joe, Florida
Springhill, Louisiana
Picayune, Mississippi
INTERNATIONAL:
Oulu, Finland
Yalkeakoski, Finland
Niort, France
Sandarne, Sweden
Greaker, Norway

PETROLEUM
Alvin, Texas
Midland, Texas
Orange, Texas

SPECIALTY PANELS
DOMESTIC:
Chino, California
Ukiah, California
Cordele, Georgia
Glasgow, Kentucky
Odenton, Maryland
Laurel, Mississippi
Statesville, North Carolina
Tarboro, North Carolina
Klamoth Falls, Oregon
Towanda, Pennyslvania
Hampton, South Carolina
Waverly, Virginia
Oshkosh, Wisconsin
INTERNATIONAL:
Pori, Finland
Bergerac, France

(Couze Mill)

Ussel, France
Barcelona, Spain

(Durion Mill)

BUILDING PRODUCTS

FLOORING
Sydney, New South Wales,
Australia

INSULATION

Minto, New South Wales,
Australia
Auckland, New Zealand
Christchurch, New Zealand

ROOFING

Corona, California
Auckland, New Zealand
SINKWARE
Adelaide, South Australia

SPECIALTY PAPERS
Thilmany
Knoxville, Tennessee
Kaukauna, Wisconsin
Nicolet
De Pere, Wisconsin
Jay, Maine

(Androscoggin Mill)

Akrosil
DOMESTIC:

Menasha, Wisconsin
Lancaster, Ohio
INTERNATIONAL:
Toronto, Canada
Limburg, Netherlands

12345

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HAMMERMILL PAPERS IS A DIVISION OF INTERNATIONAL PAPER.

(Exhibit 11)

INTERNATIONAL PAPER COMPANY

STATEMENT OF COMPUTATION OF PER SHARE EARNINGS
(IN MILLIONS, EXCEPT PER-SHARE AMOUNTS)

(UNAUDITED)

YEAR TO DATE
DECEMBER 31,

	1996	1995	1994
NET EARNINGS	$ 303	$ 1,153	$ 357
Debenture interest savings, net of taxes, assuming conversion of convertible subordinated debentures		4	7
Primary net earnings	303	1,157	364
Reduction in minority interest expense, net of taxes, assuming conversion of preferred securities of subsidiary	*	7	
Fully diluted net earnings	$ 303	$ 1,164	$ 364
Earnings per common share	$ 1.04	$ 4.50	$ 1.43
Primary earnings per share	$ 1.04	$ 4.45	$ 1.42
Fully diluted earnings per share	$ 1.04	$ 4.41	$ 1.42

PRIMARY SHARES

Average shares outstanding	292.1	256.5	249.7
Shares assumed to be repurchased using long-term incentive plan deferred compensation at average market price	(0.9)	(0.8)	(0.6)
Shares assumed to be issued upon exercise of stock options, net of treasury buyback at average market price	1.2	1.0	0.9
Shares assumed to be issued upon conversion of convertible subordinated debentures		3.4	5.8
Primary shares	292.4	260.1	255.8
FULLY DILUTED SHARES			
Average shares outstanding	292.1	256.5	249.7
Shares assumed to be repurchased using long-term incentive plan deferred compensation at period-end market price (if higher than average market price)	(0.9)	(0.8)	(0.6)
Shares assumed to be issued upon exercise of stock options, net of treasury buyback at period-end market price (if higher than			

average market price)	1.4	1.0	1.1
Shares assumed to be issued upon conversion of convertible subordinated debentures		3.4	5.8
Shares assumed to be issued upon conversion of prefered securities of subsidiary	*	3.8	
Fully diluted shares	292.6	263.9	256.0

Note: The company reports earnings per common share as the effect of dilutive securities is less than 3%.

*The preferred securities of subsidiary were antidilutive for this period.

(Exhibit 12)

INTERNATIONAL PAPER COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(DOLLAR AMOUNTS IN MILLIONS)

(UNAUDITED)

For the Years Ended December 31,

TITLE	1991	1992	1993	1994	1995	1996
A) Earnings before income taxes, minority interest, extraordinary item and accounting changes	$ 693.0	$226.0	$ 538.0	$ 715.0	$ 2,028.0	$ 802.0
B) Less: Minority interest expense, net of taxes	(42.0)	(15.0)	(36.0)	(47.0)	(156.0)	(169.0)
C) Add: Fixed charges excluding capitalized interest	380.3	325.3	365.3	412.3	605.9	672.4
D) Add: Amortization of previously capitalized interest	9.9	9.9	12.2	12.8	13.0	17.8
E) Less: Equity in undistributed earnings of affiliates	(10.8)	(19.1)	(25.9)	(49.1)	(94.5)	6.2
F) EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST, EXTRAORDINARY ITEM, ACCOUNTING CHANGES AND FIXED CHARGES	$ 1,030.4	$ 527.1	$ 853.6	$1,044.0	$ 2,396.4	$1,329.4
FIXED CHARGES						
G) Interest and amortization of debt expense	$ 351.1	$ 297.1	$ 334.5	$ 371.0	$ 542.3	$ 582.8
H) Interest factor attributable to rentals	29.2	28.2	30.8	41.3	53.0	66.0
I) Preferred dividends of subsidiary					10.6	23.6
J) Capitalized Interest	36.4	42.0	12.2	18.0	58.0	66.7
K) TOTAL FIXED CHARGES	$ 416.7	$ 367.3	$ 377.5	$ 430.3	$ 663.9	$ 739.1
L) RATIO OF EARNINGS TO FIXED CHARGES	2.47	1.44	2.26	2.43	3.61	1.80

DOLLAR AMOUNTS AND SHARES IN MILLIONS, EXCEPT PER
SHARE AMOUNTS 1996 1995

FINANCIAL SUMMARY

Net Sales	$20,143	$19,797
Operating Profit	1,589(1),(2)	2,535(1)
Earnings Before Income Taxes and Minority Interest	802(2)	2,028
Net Earnings	303(2)	1,153
Total Assets	28,252	23,977
Common Shareholders' Equity	9,344	7,797
Return on Equity	3.4%(2)	16.1%
PER SHARE OF COMMON STOCK		
Earnings	$ 1.04(2)	$ 4.50
Cash Dividends	1.00	.92
Common Shareholders' Equity	31.13	29.87
SHAREHOLDER PROFILE		
Shareholders of Record at December 31	33,930	31,340
Shares Outstanding at December 31	300.2	261.0
Average Shares Outstanding	292.1	256.5

(1) See the operating profit tables on page 42 for details of operating profit by industry segment. Results from equity investments are not included in operating profit.
(2) Includes a pre-tax restructuring and asset impairment charge of $515 million ($362 million after taxes or $1.35 per share), a $592 million pre-tax gain on the sale of a partnership interest ($336 million after taxes and minority interest or $1.25 per share) and a $165 million pre-tax charge ($105 million after taxes or $.35 per share) for the write-down of the investment in Scitex. The write-down of the Scitex investment is not included in operating profit. Return on equity was 4.8% before these items.

[Net Sales Chart--Appendix A No. 1]

[Net Earnings Chart-- Appendix A No. 2]

[Earnings Per Share Chart--Appendix A No. 3]

[Return on Equity Chart--Appendix A No. 4]

TO OUR SHAREHOLDERS

"...you will see from our Company more accountability from our businesses for increasing return on investment, more emphasis on serving customers and greater participation by employees..."

[PHOTOGRAPH--APPENDIX B NO. 1]

JOHN T. DILLON,
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In many respects, International Paper made a great deal of progress in 1996. We added quality businesses and facilities in global markets, thereby adding to our competitive strength. We successfully integrated Federal Paper Board into the Company, exceeding the merger's financial targets. We completed one of the largest internal expansion programs in our nearly 100-year history, positioning the Company for continued market leadership into the next century. And in the midst of one of the most severe industry downturns in more than a decade, we undertook a thorough evaluation of our businesses, leading to decisions that will guide our allocation of capital and set new requirements for acceptable levels of profitability and industry leadership for each business.

In one important respect, however, 1996 did not meet our expectations. Our financial performance was not satisfactory for a company with our range of capabilities. Improving that performance in 1997 will be the most critical objective for every one of International Paper's 87,000 employees. During this year, you will see from our Company more accountability from our businesses for increasing return on investment, more emphasis on serving customers and greater participation by employees in the conduct and improvement of operations. The urgency for achieving these improvements could not be greater.

The difficult market conditions that dominated 1996 continued into the early part of this year. Those conditions actually began building in 1995. Customers stockpiled substantial inventories in reaction to that year's rising prices and subsequent supply shortages. As supply and demand came into balance, inventories were liquidated and orders throughout the industry fell

[PHOTOGRAPH--APPENDIX B NO. 2]

DEVELOPING EXCITING NEW PRODUCTS REQUIRES THE EFFORTS OF MANY DEDICATED EMPLOYEES. PICTURED HERE ARE SOME OF THE MEMBERS OF THE TEAM THAT HELPED TO DEVELOP ACCOLADE, THE NEW COATED FREESHEET PAPER PRODUCT LINE AT OUR ANDROSCOGGIN MILL IN JAY, MAINE.

INTERNATIONAL PAPER 3

[PHOTOGRAPH--APPENDIX B NO. 3]

INTEGRATING TWO WORLD-CLASS ORGANIZATIONS IS A CHALLENGE, BUT THE BENEFITS ARE WORTH THE EFFORT. OUR MERGER WITH FEDERAL PAPER BOARD CREATED AN EXCELLENT BLEACHED BOARD SYSTEM FOR SERVING A DIVERSE CUSTOMER BASE. SHOWN HERE IS THE SALES AND MARKETING MANAGEMENT TEAM ON-SITE AT OUR AUGUSTA, GA., MILL.

substantially. This caused prices to drop as well, in some cases by 30 percent during 1996.

At International Paper, these developments strongly impacted 1996 financial results. Net sales of $20 billion were a slight increase over 1995 levels, including the addition of Federal Paper Board. Earnings before special items were $434 million and were $303 million after these items compared with $1.2 billion in 1995.

Following the record-setting year of 1995, when International Paper's earnings per share were $4.50, we earned $1.04 per share after special items in 1996. Business conditions gained some strength in the fourth quarter of 1996 but those gains were eroded by the seasonally weak period at year-end. Although we compared favorably with many others in our industry, our earnings per share must improve.

OPERATIONAL EXCELLENCE

"Today, teams across our Company are reducing lead times, improving product quality in our manufacturing facilities and communicating more frequently and openly with customers."

Much of our focus in the last several months has been on attaining that objective. While it still appears that 1997 will be a recovery year, we will not manage International Paper based entirely upon expectations of what the marketplace will do and when it will do it. It is management's responsibility to make the Company less vulnerable to marketplace conditions we cannot control by concentrating more intensely on what we can control--improving our operating performance across the board. These efforts will be directed toward areas that can have a significant and immediate influence on results.

CUSTOMERS

Only one concept will drive our performance for customers. International Paper will be the supplier of choice. We will offer competitive prices to be sure, but we will not expect to earn business solely on the basis of price.

The total value of products and services that we provide to

customers needs to be greater than that offered by our competition. In my frequent meetings with customers, they stress to me the importance of service and responsiveness in addition to product quality. Expectations are clear. Customers want partners who deliver a broad range of competitive advantages.

These advantages begin with the consistent delivery of quality products and services on time and to specification. We will continue to support and expand high-performance work teams to ensure that we maintain the operational excellence required to meet all customer expectations. Today, teams across our Company are reducing lead times, improving product quality in our manufacturing facilities and communicating more frequently and openly with customers. These discussions are changing the way we do business in order to accommodate new

[PARTIAL PHOTOGRAPH--APPENDIX B NO. 4]

OUR COMPANY IS COMMITTED TO FOREST-RELATED RESEARCH, FOCUSING ON FOREST HEALTH AND PRODUCTIVITY, WATER QUALITY AND WILDLIFE PROTECTION. SHOWN HERE IS A FORESTRY TEAM IN A STAND OF OLD-GROWTH, LONGLEAF PINE, WHERE THEY STUDY THE HABITAT OF THE RED COCKADED WOODPECKER IN OUR 16,000-ACRE SOUTHLANDS EXPERIMENT FOREST IN BAINBRIDGE, GA.

[PARTIAL PHOTOGRAPH--APPENDIX B NO. 4]

RESPONSIBLE CORPORATE CITIZEN

"I want International Paper to be viewed as a highly responsible corporate citizen...a company that continuously provides, for all generations, healthy and sustainable natural resources."

customer requirements. Accelerating this process will be a 1997 priority.

Looking beyond today, a supplier of choice also must be able to provide customers with the new products and services that allow them to be first to market tomorrow. We are positioned on two fronts to do this. First, over the years, we have developed a strong technology base and we will continue to increase the value of this strategic asset. Second, with more diversity of products than any other company in our industry, we are able to fill a broad range of customer needs.

We also will utilize our global diversity to better serve customers. Today, when more products and services are sold around the world than ever before, there is greater desire and need among companies to do business in international marketplaces. We have more manufacturing experience, a stronger market presence and more extensive distribution networks and we generate higher levels of revenue around the globe than any other paper and forest products company.

EMPLOYEES

In 1997, employees will have more responsibility for the management of our businesses than ever before. This is a basic requirement of our high-performance work teams and for the internal performance improvements we expect to achieve this year.

Employees make an extraordinary difference at International Paper. I have seen it in our manufacturing facilities, laboratories and offices and on lands belonging to the Company. Time and again, I have seen the most effective ideas for improving productivity, for making our facilities safer and for building stronger relationships with customers begin with the employee who has the direct responsibility. This process needs to go further.

Everyday, all over the world, International Paper employees are

[PHOTOGRAPH--APPENDIX B NO. 5]

SAFETY IS A TOP PRIORITY AMONG INTERNATIONAL PAPER'S EMPLOYEES. MASONITE'S TOWANDA, PA., PLANT HAS ACHIEVED AN IMPRESSIVE SAFETY RECORD, EARNING OSHA'S DISTINGUISHED "STAR" STATUS, THANKS TO THE MEMBERS OF VARIOUS SAFETY TEAMS AND THE EFFORTS OF ALL EMPLOYEES AT THE MILL.

MAKING A DIFFERENCE

"...I have seen the most effective ideas for... making our facilities safer...begin with the employee who has the direct responsibility."

mastering some aspect of their business that is transferable to other organizations in our Company. Sharing these ideas, experiences and benefits, using the broad diversity of a global leader as a competitive advantage-that is what I have come to call the "IP Way." Innovative operating practices for a paper machine in one location can improve results on other paper machines in several other locations. But the application of the "IP Way" is not limited to common machines. There are, by design, great similarities in the operations of our various businesses, enabling them to take advantage of successful practices in other lines of business both here and overseas.

These rapid transfers of knowledge and experience, magnified by the broad range of assets and capabilities unique to a globally diverse company, are what distinguishes one company from all others in an industry. They also can be

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the foundation for how a company helps its customers improve their competitive positions and how to build shareholder value. It is my intent that this process become an integral part of the "IP Way."

More formally, the "IP Way" encompasses a broad statement of the Company's vision, which consists of five commitments: 1) International Paper will be a global leader and provide an excellent financial return. 2) We will be the company of choice not only for customers but for shareholders, employees and suppliers. 3) We will be responsible members of the communities where we live and work. 4) Ethical behavior and personal integrity are the core of our culture. 5) With customers and facilities around the globe, we answer to the world.

Our ability to fulfill our vision will depend upon how quickly we become a company of employees who think and act with the

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[PHOTOGRAPH--APPENDIX B NO. 6]

A TEAM-ORIENTED ENTREPRENEURIAL SPIRIT CAN TAKE A GREAT IDEA FROM THE DRAWING BOARD DIRECTLY TO THE CUSTOMER. GATORPRINT, A NEW PRODUCT DEVELOPED BY THIS CROSS-DIVISIONAL TEAM, REALLY HOLDS UP UNDER PRESSURE. EXCEPTIONAL STRENGTH AND A SUPERIOR PRINTING SURFACE MAKE GATORPRINT AN EXCITING NEW MATERIAL FOR ENVELOPES.

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creativity, energy and drive to succeed and how completely we eliminate management by mandate. For example, instead of being given corporate goals, individual businesses are now expected to set their own goals for serving customers, return on investment, profitability and market leadership. It will be management's responsibility to involve employees in setting these goals and in providing the resources and support necessary to achieve them.

The power of this approach shines through in the pictorial essays included in this report. They illustrate teams that are successfully working together, sharing both ideas and a commitment to excellence, not just within our industry but in the wider corporate universe.

SHAREHOLDERS

That same commitment to excellence will redefine our relationship with shareholders in 1997. We will be more shareholder-oriented, beginning with an improvement

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[PARTIAL PHOTOGRAPH--APPENDIX B NO. 7]

TEAMS LIKE THIS ONE IN OUR DALLAS, TEXAS, REGIONAL WAREHOUSE MAKE SURE YOUR ORDERS FROM RESOURCENET GET TO YOU QUICKLY AND EFFICIENTLY. FROM SALES TO CUSTOMER SERVICE TO DISPATCH TO SHIPPING, EVERYONE WORKS FOR THE CUSTOMER.

[PARTIAL PHOTOGRAPH--APPENDIX B NO. 7]

SUPPLIER OF CHOICE

"The total value of products and services that we provide to customers needs to be greater than that offered by our competition."

in the Company's return on investment. Over the past decade, the Company's sales growth has been impressive. This solid base now needs to be matched by similarly impressive earnings growth. We have set the marker high-our goal is to earn a 12 percent average return on investment over a business cycle.

Several actions this year will move us toward that goal.

As previously noted, each of our businesses will establish as its responsibility to shareholders an objective for the return on investment it will deliver. We will measure performance and reward managers in accordance with their success in meeting their commitments.

We also will support this goal by the way in which we allocate capital. Those businesses that are meeting performance objectives for return on investment and market leadership will receive the bulk of our investment capital.

We define market leadership as being highly competitive on costs, having unique technological strengths and being able to profitably grow. Some of our businesses do not meet these criteria and must improve. Businesses that do not have adequate plans for improvement within a reasonable time period, or are in product lines to which we can add only limited value, will be sold or shut down.

Among the contributors to the industry's historically low return on investment has been the addition of capacity in anticipation of market upswings. Our capital spending this year will be focused on those projects that directly benefit our cost structure and our ability to serve customers. We are not planning any pulp or paper projects that would add significant capacity.

In fact, our capital budget will be $1.2 billion, inclusive of spending at Carter Holt Harvey and the former Federal Paper Board

operations. This is below our forecasted depreciation and amortization level of $1.3 billion in 1997.

Operationally, we expect our return on investment this year to benefit from several additional actions. Productivity improvements and the reduction of working capital as a percent of sales are priorities. We will be returning free cash flow to shareholders in the form of debt reduction and we intend to reduce asset holdings that do not meet our long-term investment objectives.

LOOKING AHEAD

In my first year as Chairman, I have had the opportunity to travel to many locations and meet and talk with thousands of employees, our customers and shareholders. These discussions have crystallized for me the important tasks ahead for our Company and they also have reaffirmed my confidence in our ability to succeed in those efforts.

WORLDWIDE OPERATIONS

"Today, we are well positioned to prosper in areas of the world where economic growth rates and demand for our products will outpace those rates in the United States."

Our Company today is much different from what it was 10 years ago in many respects, but in no more dramatic way than in the scope and breadth of our worldwide operations. Today, we are well positioned to prosper in areas of the world where economic growth rates and demand for our products will outpace those rates in the United States. Our liquid packaging business, with facilities in Asia and South America, is positioned to take advantage of such opportunities. A new aseptic liquid packaging plant in Europe permits us to serve that very attractive market. Our Kwidzyn mill in Poland gives us access to Eastern European consumer markets that are just awakening. We have expanded our box business in the United Kingdom. Arizona Chemical has expanded through an acquisition in Finland. Our Veratec nonwovens business has new and modern facilities in Canada and

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[PHOTOGRAPH--APPENDIX B NO. 8]

WE ARE PROUD TO HAVE A STRONG PRESENCE IN POLAND, WHERE OUR MARKETING TEAM SHARES CULTURAL AND BUSINESS EXPERTISE FOR THE BENEFIT OF CUSTOMERS SUCH AS ANDRZEJ CHRZANOWSKI, PUBLISHER OF SCHOOL TEXTBOOKS (SECOND ROW, MIDDLE). SHOWN HERE AT THE NATIONAL THEATRE IN WARSAW WITH LOCAL FOLK DANCERS ARE SOME MEMBERS OF OUR POLISH MARKETING TEAM, WHICH INCLUDE POLISH AND AMERICAN EMPLOYEES.

"We will be more shareholder-oriented, beginning with an improvement in the Company's return on investment...I want International Paper to be at the top of our industry in profitability."

Mexico to meet rising demand. And our majority interest in New Zealand's Carter Holt Harvey, with its valuable softwood resources, expands our access to markets in the Pacific Rim and gives us an important presence in Chile, the most vibrant market economy in South America.

In this regard, I'd like to acknowledge my predecessor, John Georges, who retired during 1996 after more than a decade as Chairman. More than any other individual, John was responsible for "taking International Paper global." He also was the guiding force behind the Company's substantial accomplishments in managing change, using as an approach the setting of seemingly impossible targets and motivating employees to perform beyond them. The list of John's long-term contributions is extensive, but I'm sure he feels best about the Company's dedication to continuous improvement and its ability to take on and meet difficult challenges.

During my first year as Chairman, I've often been asked about my objectives for International Paper. In addition to global leadership, I want International Paper to be at the top of our industry in profitability. I want our customers to know our Company as the supplier of choice, an organization they wish to do business with because we make them more successful. I want our employees to consider International Paper a great place to work and to be stimulated by the diversity of opportunity offered by a company always on the cutting edge of technological development and with a presence in markets all over the world. I want International Paper to be viewed as a highly responsible corporate citizen, a company that meets its responsibilities to its communities and a company that continuously provides, for all generations, healthy and sustainable natural resources. I can think of no other company in the industry with more capabilities to meet these objectives than ours.

/s/ John T. Dillon

John T. Dillon
Chairman and
Chief Executive Officer

February 28, 1997

A WORLD OF PRODUCTS

From cities and towns across America to over 130 nations around the world, International Paper products touch the everyday lives of consumers. But aren't we basically a paper and forest products company? Of course we are. Our PRINTING PAPERS are preferred by our customers worldwide. Our PACKAGING grades protect our customers' goods, and enhanced graphics make them appealing to consumers. Over the years however, these businesses have led us to related fields, making us a leader in the DISTRIBUTION of paper, industrial products and graphic arts supplies, and the manufacture of an impressive array of SPECIALTY PRODUCTS, including tissue products and door facings. And our FOREST PRODUCTS are used to build and furnish homes and offices. The widespread popularity and availability of our products make us much more than a paper company; instead, International Paper creates solutions to the communication, construction and production needs of businesses and individuals worldwide.

PRINTING PAPERS

[PHOTOGRAPH--APPENDIX B NO. 9]

BOOK COVERS ARE ONE OF THE MANY USES FOR OUR SPRINGHILL AND CAROLINA BRISTOLS GRADES.

[PHOTOGRAPH--APPENDIX B NO. 10]

HIGH-QUALITY DUO, MADE IN SCOTLAND FOR CUSTOMERS IN EUROPE, CAN BE USED IN COPIERS, PRINTERS AND FAXES.

[PHOTOGRAPH--APPENDIX B NO. 11]

IT'S NOT SURPRISING THAT HAMMERMILL TIDAL DP REPROGRAPHIC PAPERS CAN BE FOUND IN OFFICES ACROSS THE COUNTRY.

[PHOTOGRAPH--APPENDIX B NO. 12]

OUR PULP GRADES ARE USED TO MAKE MANY DIVERSE PRODUCTS RANGING FROM PAPER TO YARN.

[PHOTOGRAPH--APPENDIX B NO. 13]

OUR KWIDZYN MILL'S POLSPEED, POLCOPY AND POLLUX BRAND PAPER PRODUCTS ARE USED THROUGHOUT EUROPE.

[PHOTOGRAPH--APPENDIX B NO. 14]

OUR COATED PAPERS ARE USED TO PRODUCE MANY WELL-KNOWN PUBLICATIONS THAT YOU MAY READ AND USE EVERY DAY. FOR EXAMPLE, LOUIS A. FORTE, MANAGER, CATALOG PUBLISHING OPERATIONS, JCP MEDIA CORPORATION, IS HOLDING A COPY OF THE JCPENNEY CATALOG, WHICH INCLUDES PUBLICATION GLOSS.

International Paper's printing papers business is present in markets around the world, with production in seven countries. Our ability to produce about eight million tons annually of printing papers makes our product range far reaching as well. BUSINESS PAPERS About three and one-half million tons of paper for business needs,

[PHOTOGRAPH--APPENDIX B NO. 15]

ZANDERS PRODUCES SOME OF THE WORLD'S FINEST COATED PAPERS FOR SOPHISTICATED PRINTING.

[PHOTOGRAPH--APPENDIX B NO. 16]

SPRINGHILL PRINTING PAPERS AND BRISTOLS PROVIDE PRINTERS AND PUBLISHERS SUPERIOR PRINT QUALITY.

[PHOTOGRAPH--APPENDIX B NO. 17]

OUR COATED PAPERS ARE USED IN A WIDE VARIETY OF MAGAZINES ENJOYED BY MILLIONS OF READERS.

[PHOTOGRAPH--APPENDIX B NO. 18]

WE PRODUCE AND MARKET SPECIALTY GRADES OF HAMMERMILL PAPER FOR SALE IN RETAIL OUTLETS.

[PHOTOGRAPH--APPENDIX B NO. 19]

OUR DISTINCTIVE STRATHMORE AND BECKETT PREMIUM FINE PAPERS ARE RECOGNIZED FOR THEIR EXCELLENT QUALITY AND WIDE SELECTION.

[PHOTOGRAPH--APPENDIX B NO. 20]

IN FRANCE, AUSSEDAT REY'S GRADES INCLUDE REYPRINT, REPROGRAPHIC COATED PAPER FOR COLOR LASER PRINTERS.

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such as reprographic paper for copiers and paper for various kinds of printers; offset papers for books, direct mail and other publications; uncoated bristols for file folders and index cards; converting papers for tablets and envelopes; and premium grades for high-quality artist, printing and writing needs. COATED PAPERS Almost two million tons of coated paper for magazines, catalogs and annual reports; coated bristols for book covers and commercial printing. PULP Over two million tons of pulp, used as the basic ingredient for all papers and paperboard, as well as disposable diapers and some fabrics.

PRINTING PAPERS

Printing Papers reported 1996 sales of $5.6 billion, declining from $6.1 billion in 1995. Operating profit fell to $185 million (after a special charge of $35 million) from a record $1.1 billion in 1995. In 1994, sales were $4.4 billion and operating profit was $20 million. Pulp and paper markets softened in late 1995 and remained weak through the early part of 1996. During this time, International Paper took 215,000 tons of downtime at its U.S. mills to control inventory levels. Demand improved somewhat at midyear, but industry operating rates, which averaged 92% to 93% for business and coated papers and 89% for pulp in 1996, were not strong enough to sustain higher prices.

BUSINESS PAPERS sales were $3.0 billion, declining 9% from $3.3 billion in 1995. Sales were $2.3 billion in 1994. Operating profit was only one-sixth of that reported in 1995, following a loss in 1994. Results include the contribution of Federal Paper Board's Tait mill in Scotland, which supplies 220,000 tons of uncoated papers annually to markets in the United Kingdom and continental Europe.

In the U.S., high customer inventories of printing papers and bristols led to weak demand and low operating rates. Average prices were 20% below 1995. Our well-respected brands, Springhill and Hammermill business papers, Strathmore and Beckett printing and artist papers, as well as Springhill and Carolina bristols, continued to command a prominent presence in the marketplace.

In Poland, Kwidzyn's shipments were strong, but prices fell more than 30% from the peak level of 1995. The mill reached a major milestone in 1996, achieving product quality that matches that of leading Western European suppliers. Kwidzyn also completed a major modernization program, and is now Europe's lowest cost business papers mill. In Western Europe, Aussedat Rey and Tait experienced price declines similar to Kwidzyn.

As 1997 begins, underlying demand is good and customer inventories are close to normal levels. We expect improved business conditions and price recovery as the year progresses. However, because early-1997 prices are significantly below 1996 levels,

[Printing Papers Net Sales Chart--Appendix A No. 5]

[Printing Papers Sales By Business Pie Chart--Appendix A No. 7]

it will be difficult to improve average prices year over year. Higher earnings will come mainly from increased volumes, improved grade mix and cost control, including a major effort to improve the efficiency of all of our mills and reduce waste. Our goal is to produce A-1 quality paper 100% of the time.

COATED PAPERS sales of $1.7 billion were flat with 1995, but operating profit declined nearly 30%, largely due to lower prices in the U.S. Weak demand for coated ground-wood and severe price erosion characterized U.S. coated markets in 1996. During the year, we rebuilt a paper machine at our mill in Jay, Maine, converting it to coated freesheet. Our unique new product line, Accolade, will serve commercial printers and upscale catalogs and magazines. The mill will employ proprietary technology to produce this world-class product at a competitive advantage. While the project's start-up costs reduced earnings in 1996, we expect it to add positively in 1997. Overall, we see signs of stronger demand and believe coated papers prices in the U.S. will strengthen as the year progresses.

In Europe, Zanders' sales declined 14% due to lower prices, following a 20% increase in 1995. Zanders made significant progress in streamlining its business and reducing costs, resulting in a significantly smaller loss than in 1995. Zanders is also expanding its marketing efforts for its well-regarded, high-quality coated papers such as Chromolux and Ikono. In 1997, rising industry capacity is likely to adversely affect European coated papers markets. However, operating results should improve as Zanders benefits from lower pulp costs and further cost reductions.

PULP sales of $900 million declined 18% from $1.1 billion in 1995. Federal Paper Board brought 550,000 tons of annual pulp capacity to International Paper. Operating profit declined substantially due to significantly lower prices for paper pulps. We expect prices to recover once high producer inventories are reduced. Pricing for specialty pulps, especially dissolving pulps used in textiles, exhibited far more price stability.

[Printing Papers Operating Profit Chart--Appendix A No. 6]

[Printing Papers Sales to Geographic Areas Pie Chart--Appendix A No. 8]

[PHOTOGRAPH--APPENDIX B NO. 21]

IN POLAND, OUR KWIDZYN MILL NOW PRODUCES COATED MULTI-PLY FOLDING BOXBOARD FOR PACKAGING MANY PRODUCTS.

[PHOTOGRAPH--APPENDIX B NO. 22]

EVEN "SEATTLE'S BEST COFFEE" TASTES BETTER WHEN SERVED IN PAPER CUPS PRODUCED BY IMPERIAL BONDWARE.

[PHOTOGRAPH--APPENDIX B NO. 23]

OUR CORRUGATED BOXES NOT ONLY PROTECT OUR CUSTOMERS' PRODUCTS, BUT BOLD GRAPHICS CAN HELP SELL THEM AS WELL.

[PHOTOGRAPH--APPENDIX B NO. 24]

OUR NEW ASEPTIC PACKAGING PLANT IN LYON, FRANCE, SERVES A GROWING MARKET FOR DAIRY AND JUICE PRODUCTS.

[PHOTOGRAPH--APPENDIX B NO. 25]

IT'S A "BREEZE" TO SEE WHY PACKAGING WITH VIVID FOUR-COLOR PRINTING GIVES OUR CUSTOMERS AN ADVANTAGE ON THE SHELVES.

With mills in four countries producing packaging grades of paper and board and converting plants in over one dozen more, International Paper is truly a global supplier of packaging products. INDUSTRIAL PACKAGING Three million tons of containerboard manufactured annually worldwide; corrugated boxes supplied from 51 plants in the U.S., Europe and New Zealand; and kraft paper and packaging. CONSUMER PACKAGING Over two million tons of bleached board and cartonboard produced annually for packaging cosmetics, software, tobacco products, pharmaceuticals and food; fresh

[PHOTOGRAPH--APPENDIX B NO. 26]

OUR SPOUTPAK CARTONS ARE EASY-TO-POUR AND PROVIDE EXTENDED SHELF LIFE FOR DAIRY AND JUICE PRODUCTS.

[PHOTOGRAPH--APPENDIX B NO. 27]

CARTER HOLT HARVEY IN NEW ZEALAND HELPS TO BRING PRODUCTS TO MARKET WITH ITS SUPERIOR PACKAGING CAPABILITIES.

[PHOTOGRAPH--APPENDIX B NO. 28]

OUR COLORFUL LABELS CAN BE FOUND ON MANY OF YOUR FAVORITE PRODUCTS.

[PHOTOGRAPH--APPENDIX B NO. 29]

MERCHANDISE PURCHASED FROM FAMILIAR RETAILERS LIKE ACE HARDWARE IS CARRIED HOME IN OUR KRAFT BAGS.

[PHOTOGRAPH--APPENDIX B NO. 30]

OUR FOLDING CARTONS HAVE EYE-CATCHING GRAPHICS AND HELP PREVENT PRODUCTS FROM "GOING TO PIECES."

[PHOTOGRAPH--APPENDIX B NO. 31]

A VARIETY OF "HARVESTS" CAN BE PACKAGED IN THE CORRUGATED BOXES WE PRODUCE IN EUROPE.

[PHOTOGRAPH--APPENDIX B NO. 32]

IVY HILL CORPORATION (A TIME WARNER COMPANY) USES OUR EVEREST AND STARCOTE BLEACHED BOARD AT ITS PLANTS IN INDIANA AND CALIFORNIA TO PRODUCE SUPERIOR PACKAGING WITH BOLD GRAPHICS FOR ITS CUSTOMERS. IVY HILL EXECUTIVE VICE PRESIDENT STEVEN H. SHAPOFF IS HOLDING A MICROSOFT(R) OFFICE(R) 97 CARTON THAT WAS PRINTED ON EVEREST BOARD AT IVY HILL'S LOS ANGELES PLANT.

and aseptic packaging for customers worldwide from 20 liquid packaging plants in 11 countries; folding cartons from plants in the U.S. and New Zealand; labels produced domestically; and cups made by Imperial Bondward.

PACKAGING

Packaging achieved sales of $4.9 billion in 1996, increasing from $4.5 billion in 1995 and $3.4 billion in 1994. Operating profit was $421 million (after a special charge of $42 million) compared with $741 million in 1995 and $293 million in 1994. While shipments across International Paper's packaging businesses were generally stronger than in 1995, prices for industrial packaging were significantly weaker, leading to lower 1996 segment earnings.

INDUSTRIAL PACKAGING sales were $2.8 billion in 1996, declining 10% from $3.1 billion in 1995, including the full-year impact of Carter Holt Harvey and sales from our new containerboard machine in Mansfield, La., which reached design capacity this year. Sales were $2.2 billion in 1994. Operating profit in 1996 was 40% of that earned in 1995.

In the U.S., pricing weakness that began in late 1995 continued into 1996 due to excess new industry capacity. We curtailed production by 250,000 tons to balance inventories. While prices declined steadily until late summer, demand was relatively strong, with U.S. industry box shipments reaching record levels in 1996. Overall, our shipments increased 8% but attempts to raise prices were not successful and, for the year, average prices for containerboard were 30% lower than in 1995. Conditions were similar in Europe, as well as in New Zealand, where Carter Holt Harvey's margins were lower due to increased domestic competition and price weakness in export markets.

In 1997, we will continue to strengthen customer relationships and grow our premium-grade products supported by our new machine at Mansfield. The early 1996 introduction of WhiteTop linerboard is regarded to be the single most successful product launch in our history. Additionally, Carter Holt Harvey will proceed with a project to improve the competitiveness of the Kinleith mill by simplifying their product mix and adding waste paper recycling capability and pulp processing equipment. When completed in 1998, Kinleith will be one of the lowest cost containerboard manufacturers in the Pacific Rim and will provide our Asian customers with a full range of packaging materials. While we expect price recovery during the year, average prices for containerboard and boxes may not reach 1996

[Packaging Net Sales Chart--Appendix A No. 9]

[Packaging Sales By Business Pie Chart--Appendix A No. 11]

levels. However, we believe our continuing marketing initiatives, as well as productivity and cost-reduction efforts, will result in steadily improving earnings in 1997. For example, our U.S. box business was recently aligned along end-user markets and across geographic boundaries in an effort to be more responsive to our customers' needs. This change in the way we do business has allowed us to improve our service on a national and global level, and has made us a supplier of choice with our worldwide customers.

CONSUMER PACKAGING sales were $2.1 billion in 1996. This compares with $1.4 billion in 1995 and $1.2 billion in 1994. Higher sales were due primarily to the merger with Federal Paper Board in March. Operating profit was up 21% over 1995 and more than twice that of 1994. The very successful integration of Federal's operations at its two low-cost U.S. bleached board mills, one boxboard mill and seven converting plants was largely completed in 1996, and added to earnings per share. The positive impact of Federal more than offset declines caused by weak U.S. bleached board markets early in the year and costs to expand the Company's liquid packaging business in France, Brazil and China. The addition of StarCote to our well-known Everest brand has broadened our bleached board product line. Imperial Bondware has also been a valuable addition to our consumer packaging business. While 1996 average bleached board prices were down 8% from 1995, demand improved late in the year.

Consumer packaging markets softened somewhat in early 1997, but we expect overall demand to grow during the year. We anticipate that earnings will strengthen, driven by further efficiencies as we continue to optimize our combined manufacturing and marketing organizations. Importantly, International Paper's strength in technology and Federal's focused marketing approach have aided expansion of relationships with key customers including Nabisco, Quaker Oats, The Dial Corporation and JCPenney. We also expect growth to continue in offshore liquid packaging markets due to rising standards of living in fast-growing economies in Asia and Latin America.

[Packaging Operating Profit Chart--Appendix A No. 10]

[Packaging Sales To Geographic Areas Pie Chart--Appendix A No. 12]

[PHOTOGRAPH--APPENDIX B NO. 33]

FOR GRAPHIC ARTS, OUR COLORLOK LINE OF PRECISION PRINTING PRODUCTS GIVES OUR CUSTOMERS SUPERIOR PERFORMANCE.

[PHOTOGRAPH--APPENDIX B NO. 34]

OUR REPLICOPY REPROGRAPHIC PAPER IS JUST ONE OF THE MANY BRANDS OF PAPER RESOURCENET INTERNATIONAL OFFERS THROUGHOUT ITS SYSTEM.

[PHOTOGRAPH--APPENDIX B NO. 35]

ROUNDING OUT OUR PRESENCE WORLDWIDE, CARTER HOLT HARVEY SERVES CUSTOMERS IN BOTH NEW ZEALAND AND AUSTRALIA.

[PHOTOGRAPH--APPENDIX B NO. 36]

RESOURCENET INTERNATIONAL'S EXPRESS STORES CAN SUPPLY YOUR COMPANY WITH A WIDE RANGE OF PRODUCTS FOR DAY-TO-DAY OFFICE NEEDS.

[PHOTOGRAPH--APPENDIX B NO. 37]

RESOURCENET INTERNATIONAL IS COMMITTED TO OFFERING ITS CUSTOMERS THROUGHOUT NORTH AMERICA THE EXCELLENT SERVICE THEY DEMAND AND DESERVE. SHOWN HERE IS KAREN ASHLEY, MANAGER, GLOBAL PURCHASING ORGANIZATION FOR LUCENT TECHNOLOGIES, HOLDING A REAM OF REPLICOPY PAPER, ONE OF THE MANY PRODUCTS WE PROVIDE TO LUCENT'S LOCATIONS ACROSS THE U.S.

Through our merchant distribution businesses, we supply industry, wholesalers and end users with a vast array of products from the world's finest manufacturers. International Paper has distribution capability on three continents, providing our customers with fast and efficient service for virtually any

[PHOTOGRAPH--APPENDIX B NO. 38]

TUFFLEX, RESOURCENET'S NATIONAL BRAND OF PACKAGING TAPE, COMES IN VARIOUS SIZES, STRENGTHS AND SUBSTRATES.

[PHOTOGRAPH--APPENDIX B NO. 39]

OUR NATIONWIDE DELIVERY FLEET BRINGS ALL OF OUR RESOURCES RIGHT TO EACH CUSTOMER'S DOOR.

[PHOTOGRAPH--APPENDIX B NO. 40]

IN EUROPE, OUR DISTRIBUTION SYSTEM SELLS A FULL RANGE OF GRADES, INCLUDING INTERNATIONAL PAPER PRODUCTS MADE IN EUROPE.

[PHOTOGRAPH--APPENDIX B NO. 41]

OUR FULL LINE OF REGENCY CLEANING PRODUCTS PROVIDES A COST-EFFECTIVE ALTERNATIVE FOR OUR CUSTOMERS.

[PHOTOGRAPH--APPENDIX B NO. 42]

ALL OF RESOURCENET INTERNATIONAL'S 130 WAREHOUSE LOCATIONS ACROSS NORTH AMERICA WILL SOON BE LINKED ELECTRONICALLY.

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printing, packaging, graphic arts, sanitary maintenance or industrial supplies they desire. In North America, ResourceNet International encompasses 130 wholesale facilities in the U.S. and Mexico as well as 165 Express Paper and Graphics stores for printers, small businesses and individual consumers. We operate modern regional distribution facilities as hubs in their respective regions. In Europe, Aussedat Rey serves the French market and Scaldia Papier BV serves the Netherlands. In Australia and New Zealand, Carter Holt Harvey operates distribution systems that supply paper and industrial products to that region.

DISTRIBUTION

Distribution posted sales of $4.7 billion in 1996, a 6% decline from $5.0 billion in 1995. Sales in 1994 were $3.5 billion. More than two-thirds of distribution sales are in printing papers markets, the balance in graphic arts and industrial products. Lower sales in 1996 reflect market conditions and declines of more than 20% in sales prices similar to those faced by our printing papers segment. Acquisitions represent 50% of the increase since 1994. Operating profit for the segment was $109 million, improving slightly from $106 million in 1995 and nearly 50% greater than $74 million in 1994. In 1996, we saw improvement in both operating margins and return on assets under extremely difficult market conditions.

ResourceNet International, our North American distribution business, generates 90% of our merchant distribution sales. We have built our business through a series of acquisitions and are now consolidating and coordinating activities to make over 20 independent companies into one national distribution operation. Over the past 10 years, sales have grown at an average annual rate of 16%. Most recently, Seaman-Patrick Paper Company and Carpenter Paper Company were added to the ResourceNet International family. Today, ResourceNet comprises 130 wholesale locations coast-to-coast. Although ResourceNet's overall sales dollars declined in 1996, unit sales volume increased more than 5%.

ResourceNet International operates in an environment where responsiveness to customers is vital. Meeting this challenge, ResourceNet continues to sharpen its service capabilities. With close proximity to our large customers and strong local management, we provide a high level of service that allows our customers an advantage in cost and asset management. This is particularly important for our national accounts, a growing and profitable part of our business. A major initiative under way is the implementation of an operating information system that will electronically link locations

[Distribution Net Sales Chart--Appendix A No. 13]

[Distribution Sales By Business Pie Chart--Appendix A No. 15]

throughout North America. The system is designed to facilitate better communications with customers, improve efficiency and reduce costs. It is already a success in the Northeast, and installation will begin in the West and Midwest regions during 1997. While the installation of the centralized system will bring many advantages, ResourceNet International is not waiting for system improvements to drive stronger financial returns.

Another important initiative has been the consolidation of multiple locations into highly automated, efficient regional distribution centers enabling ResourceNet to reduce its operating costs and working capital. New "hubs" in Texas and Kansas were fully operational in 1996 and another in Wisconsin is scheduled to open by mid-1997.

We are establishing a national format for purchasing and focusing on key partnerships for growth with committed vendors. Utilizing a national data system, we will increase our asset turn and reduce the cost of goods and purchasing.

ResourceNet International also continues to seek out new customers by electronically selling through the Internet, and by searching for new markets. One of the most important is the small-office, home-office market. To meet growth in this market, we plan to open 30 new retail stores in 1997, bringing our total to more than 180. At these stores, we offer a broad selection of familiar brands of paper and related products, essentially allowing our smaller customers the same choice as our largest, while improving their cost.

Our international distribution businesses posted sales of $470 million, flat with 1995. European operations, Aussedat Rey based in France and Scaldia in the Netherlands, contributed positively to segment results, as did Carter Holt Harvey's operations in New Zealand and Australia.

As in our printing papers and packaging businesses, we look forward to improving market conditions and continued volume growth as 1997 progresses.

[Distribution Operating Profit Chart--Appendix A No. 14]

[Distribution Sales By Major Product Pie Chart--Appendix A No. 16]

FINANCIAL REVIEW

[PHOTOGRAPH--APPENDIX B NO. 43]

CARTER HOLT HARVEY IS THE LARGEST TISSUE PRODUCTS PRODUCER IN AUSTRALIA AND NEW ZEALAND.

[PHOTOGRAPH--APPENDIX B NO. 44]

IN FRANCE, POLYREY SPECIALTY PANELS ARE POPULAR IN BOTH RESIDENTIAL AND COMMERCIAL CONSTRUCTION PROJECTS.

[PHOTOGRAPH--APPENDIX B NO. 45]

THILMANY'S UNIQUE DRINK POUCH PROTECTS DRY INGREDIENTS, IS HEAT-SEALABLE AND HAS AN EXCELLENT PRINT SURFACE FOR GRAPHICS.

[PHOTOGRAPH--APPENDIX B NO. 46]

OUR DECORATIVE PRODUCTS DIVISION PRODUCES DURABLE AND ATTRACTIVE FOUNTAINHEAD COUNTERTOP SURFACES IN MANY PATTERNS.

[PHOTOGRAPH--APPENDIX B NO. 47]

OUR PETROLEUM AND MINERALS DIVISION EXPLORES IN THE GULF OF MEXICO FOR NEW OIL AND GAS RESERVES.

[PHOTOGRAPH--APPENDIX B NO. 48]

INTERSPUN ENHANCED FABRIC GIVES THIS PILLOW SOFTNESS, DURABILITY AND BREATHABILITY WITHOUT CHEMICAL TREATMENT.

Our presence in specialty products makes us much more than your typical paper and forest products company. SPECIALTY PANELS CraftMaster door facings; Nevamar and Polyrey decorative laminates. IMAGING PRODUCTS Ilford, Anitec, Horsell and Anchor serving the photography and printing markets. SPECIALTY PAPERS Thilmany, Nicolet and Akrosil specialty papers for food packaging, consumer and industrial pressure-sensitive applications. NONWOVENS Veratec spunbond nonwoven fabrics used for components of both consumer and industrial products. TISSUE Carter Holt Harvey is the largest tissue products manufacturer in

[PHOTOGRAPH--APPENDIX B NO. 49]

RESINS MADE BY ARIZONA CHEMICAL ARE USED IN BRIGHTLY COLORED PRINTING INKS SUCH AS THESE.

[PHOTOGRAPH--APPENDIX B NO. 50]

PHOTEX SCANNER WIPES, MADE BY VERATEC, ARE USED IN THE GRAPHIC ARTS INDUSTRY.

[PHOTOGRAPH--APPENDIX B NO. 51]

ILFORD IS THE FILM AND PAPER OF CHOICE FOR PROFESSIONAL PHOTOGRAPHERS AROUND THE WORLD.

[PHOTOGRAPH--APPENDIX B NO. 52]

MASONITE'S CRAFTMASTER LINE OF DOOR FACINGS OFFERS A WIDE RANGE OF STYLES AND VALUE.

[PHOTOGRAPH--APPENDIX B NO. 53]

ARIZONA CHEMICAL SUPPLIES H.B. FULLER WITH ADHESIVE RESINS TO PRODUCE ITS CONSUMER-PACKAGED GLUE STICKS.

Australasia. CHEMICALS AND PETROLEUM Arizona Chemical is a leading processor of pulp mill organic byproducts such as tall oil and crude sulfate turpentine, and produces resins for inks and adhesives; our petroleum business manages mineral rights and explores for and develops oil and gas reserves.

[PHOTOGRAPH--APPENDIX B NO. 54]

PATRICK INDUSTRIES SUPPLIES BUILDING MATERIALS TO THE RAPIDLY GROWING MANUFACTURED HOUSING MARKET. PATRICK HAS PURCHASED MASONITE PRODUCTS FOR MORE THAN 20 YEARS. DAVID LUNG, PRESIDENT, IS SHOWN HERE HOLDING SAMPLES OF MASONITE SIDING.

SPECIALTY PRODUCTS

Specialty Products sales continued to grow in 1996, increasing 6% to $3.5 billion. Sales were $3.3 billion in 1995 and $2.6 billion in 1994. Earnings were $319 million before a special charge in 1996 compared with $207 million in 1995 and $268 million in 1994. Including a restructuring charge of $370 million, relating primarily to the imaging products businesses, the segment reported an operating loss of $51 million in 1996.

SPECIALTY PANELS sales were $990 million in 1996, in line with 1995. Earnings for this group of products, the largest contributor to segment profit, improved 21%. Growth was driven by increased sales of high-pressure laminates and by Masonite's continued penetration of overseas door facings markets. U.S. housing starts were strong during 1996, and we continued to increase our sales in repair and remodeling markets. A new door facings plant in Ireland will begin production in mid-1997, and we are pursuing opportunities to develop Asian and Latin American markets. Low-pressure laminates earnings declined in 1996 due to excess capacity. In 1997, we expect specialty panels results to improve as market conditions remain favorable.

IMAGING PRODUCTS sales declined 8% to $715 million. The division reported a small profit, following a loss in 1995. The improvement reflects a major program undertaken in early 1996 to reposition our graphic arts business in order to compete more effectively. However, advances in digital-based imaging continue to reduce demand for photosensitive papers and films. As a result, the Company's accomplishments have in part been offset by the ongoing technology changes. Our printing plate, pressroom chemical and Ilford products continue to be profitable.

SPECIALTY PAPERS sales grew 4% to $555 million. Operating profit improved 16%, following a 14% improvement last year. Shipments increased 6% in 1996 and higher margins were achieved through a better sales mix including a wide range of release liners and face stocks for label, hygiene, tape and industrial applications, and lower costs. Growth of specialty papers is driven by increasing demand for such release liners, which are used in pressure-sensitive labels. This demand is being met by a rebuilt machine, which

[Specialty Products Net Sales Chart--Appendix A No. 17]

[Specialty Products Sales By Business Pie Chart--Appendix A No. 19]

started up in 1995. Akrosil is positioned for expansion in release liner markets with new coaters in Toronto and Knoxville. We expect continued growth and higher sales and earnings in 1997.

The TISSUE operations of Carter Holt Harvey posted sales of $405 million in 1996, increasing from $265 million in 1995, reflecting a full year of operations in 1996. Operating profit doubled. The year was marked by the successful integration of Carter Holt Harvey's New Zealand tissue business with the Australian operations of Bowater plc, purchased in early 1995. During the year, sales activities were consolidated, shipping costs were significantly reduced and in New Zealand, a new ultra thin disposable diaper was successfully launched.

Veratec's NONWOVENS sales of $265 million were flat with 1995 and 7% stronger than 1994. The division was profitable in 1996, as we completed our transition to spunbond technology with the June start up of a facility in Mexico. Veratec's spunbond nonwoven product has gained strong market acceptance and is now positioned to supply North and South American demand with three production lines. We expect considerably higher sales and earnings in 1997 and also plan to introduce several new specialty products.

Combined sales of our CHEMICALS AND PETROLEUM businesses were $545 million in 1996, 23% higher than 1995. Sales growth was driven by our European chemicals operations and higher prices for both oil and gas. The year was one of both opportunities and challenges for Arizona Chemical, brought on by two recent acquisitions in Europe and sluggish markets for ink and adhesive resins. Arizona Chemical is a global business with more than 50% of sales occurring outside the U.S. Although chemicals profits declined in 1996, results should improve in 1997 as we proceed to integrate our European operations and benefit from strengthening markets. Petroleum operating profit in 1996 was almost twice that of 1995 due to higher oil and gas prices. A successful offshore exploration program led to record reserves at year-end. Earnings in 1997 will be influenced by fluctuations in oil and gas prices.

[Specialty Products Operating Profit Chart--Appendix A No. 18]

[Specialty Products Sales To Geographic Areas Pie Chart--Appendix A No. 20]

[PHOTOGRAPH--APPENDIX B NO. 55]

NEXT TIME YOU TACKLE A LANDSCAPING PROJECT AROUND THE HOUSE, YOU MAY BE USING OUR LANDSCAPE TIMBERS.

[PHOTOGRAPH--APPENDIX B NO. 56]

OUR SUPERTREE PINE SEEDLINGS ARE PLANTED ON COMPANY-OWNED AND -MANAGED LAND AND OFFERED TO OTHER LANDOWNERS IN THE SOUTHERN U.S.

[PHOTOGRAPH--APPENDIX B NO. 57]

PINE CONES FROM SUPERIOR TREES PROVIDE SEEDS THAT ARE GROWN INTO SEEDLINGS USED TO REPLANT HARVESTED LAND.

[PHOTOGRAPH--APPENDIX B NO. 58]

CONSUMER DEMAND CONTINUES TO GROW FOR MORE ECONOMICAL BUILDING MATERIALS LIKE OUR ORIENTED STRAND BOARD.

[PHOTOGRAPH--APPENDIX B NO. 59]

CARTER HOLT HARVEY CONTROLS MORE THAN 800,000 ACRES OF RENEWABLE RADIATA PINE FORESTS IN NEW ZEALAND.

[PHOTOGRAPH--APPENDIX B NO. 60]

EASTERN WHITE PINE IS A FAVORITE AMONG BUILDERS FOR HIGH-QUALITY MOLDINGS AND PANELING PRODUCTS.

[PHOTOGRAPH--APPENDIX B NO. 61]

CENTEX HOMES, ONE OF THE NATION'S LARGEST HOMEBUILDERS, UTILIZES A VARIETY OF INTERNATIONAL PAPER PRODUCTS SUCH AS PLYWOOD, ORIENTED STRAND BOARD, LUMBER AND TREATED LUMBER IN ITS NEW HOME CONSTRUCTION. CTX BUILDERS SUPPLY PRESIDENT JOHN MIKKELSON IS SHOWN HERE HOLDING LUMBER PRODUCED AT OUR NEW BOSTON, TEXAS, LUMBER MILL THAT WILL BE USED IN CONSTRUCTION OF A NEW CENTEX HOME IN DALLAS.

International Paper is committed to utilizing our natural resources in an environmentally and economically responsible manner. We continue to harvest and replant our forestlands and develop low-cost and improved substitutes for traditional wood products. FORESTLANDS Approximately 6.4 million acres of forest-

[PHOTOGRAPH--APPENDIX B NO. 62]

MEDIUM-DENSITY FIBERBOARD IS A POPULAR MATERIAL FOR KITCHEN CABINETS AND FURNITURE LIKE THIS DESK.

[PHOTOGRAPH--APPENDIX B NO. 63]

INTERNATIONAL PAPER IS A LEADING PRODUCER OF SOUTHERN PINE LUMBER IN THE U.S. AND ALSO MANUFACTURES MANY GRADES OF PLYWOOD. BOTH ARE ESSENTIAL MATERIALS FOR CONSTRUCTION PROJECTS.

[PHOTOGRAPH--APPENDIX B NO. 64]

LOBLOLLY PINE IS THE PREDOMINANT SOFTWOOD SPECIES ON THE FOUR MILLION ACRES WE CONTROL IN EIGHT SOUTHERN STATES.

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lands in the U.S. under our control primarily through a majority ownership in IP Timberlands, Ltd. providing sawlogs and pulpwood for use in papermaking and wood products; an interest in more than 800,000 acres of radiata pine forests in New Zealand owned and managed by Carter Holt Harvey; and an interest in one million acres of forestlands in South America through Carter Holt Harvey's stake in Chile's COPEC.
WOOD PRODUCTS Lumber, plywood, hardboard siding, medium-density fiberboard and oriented strand board products used by residential and commercial builders throughout North America, Europe and the Pacific Rim.

FOREST PRODUCTS

Forest Products achieved sales of $2.7 billion in 1996, up substantially from $2.1 billion in 1995 and $1.7 billion in 1994. Operating profit was $390 million before special items compared with $388 million in 1995 and $418 million in 1994. In March 1996, IP Timberlands, Ltd. sold an interest in a subsidiary partnership that owns approximately 300,000 acres of forestlands in Oregon and Washington. The interest sold represented essentially all of IPT's western forestland holdings, the source of one-third of 1995 and 1994 stumpage sales. As a result of the sale, the Company reported a gain before taxes and minority interest expense of $592 million. Segment operating profit of $925 million in 1996 reflects this gain, as well as a restructuring and asset impairment charge of $57 million.

FORESTLANDS revenues increased 6% in 1996 to $750 million, due mainly to the full-year impact of Carter Holt Harvey, while operating profit declined 6%. In the U.S., sales declined 14%. Volumes were 8% higher in 1996, including harvesting on 700,000 acres of pine forests in the southeastern U.S. acquired with Federal Paper Board. Although harvest volumes were higher, average prices realized by the Company were off 12% because our sales mix included premium West Coast timber only during the first quarter. Overall, lower U.S. earnings from harvest activities were offset by bulk timber sales in the South. However, Carter Holt Harvey's earnings declined considerably due to weak export markets, leading to lower overall forestlands profit for International Paper in 1996.

In 1997, we expect timber markets to remain strong. As the year began, prices for U.S. southern pine were 10% above January 1996 levels. However, as a result of selling our western operations and reduced harvest levels, we project lower sales and earnings.

[Forest Products Net Sales Chart--Appendix A No. 21]

[Forest Products Sales By Business Pie Chart--Appendix A No. 23]

WOOD PRODUCTS sales increased 34% in 1996 to $1.9 billion, following a 20% increase in 1995. Operating profit improved 20% over 1995, but was about half that reported in 1994. Results reflect strong lumber operations, offset by lower earnings for panels and other products. On average for the year, U.S. lumber prices were 7% higher than 1995, while panel prices declined considerably. Shipments of both lumber and panels were significantly higher in 1996. The merger with Federal added five mills, which more than doubled International Paper's U.S. lumber capacity. The start-up of a new facility in Jefferson, Texas, expanded our position in oriented strand board, a business in which our plants are among the lowest cost producers in the industry. And we have been successful in developing specialties within our wood products businesses. Today, more than half of our panel output is in products other than commodity sheathing. Finally, Carter Holt Harvey contributed solidly to wood products results in 1996. With its acquisition of Forwood, Carter Holt Harvey now holds a leadership position in wood products in Australasia.

We believe U.S. housing starts will be strong in 1997, at about 1.35 million units, with further growth in repair and remodeling markets. Lumber prices during the early months of 1997 have been higher than last year, and the full-year impact of Federal's operations will add to our profits. Additionally, new log scanning technology installed at several locations has already provided significant yield and grade improvements. Our expectations for panel markets are less optimistic. Until new capacity is absorbed, pricing will be weak. We will continue to identify ways to reduce costs and further enhance our competitive position. Overall, we expect wood products results to improve modestly in 1997.

[Forest Products Operating Profit Chart--Appendix A No. 22]

[Forest Products Sales To Geographic Areas Pie Chart--Appendix A No. 24]

OVERVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

The Company's 1996 results reflect a merger with Federal Paper Board on March 12, 1996 and a full year's contribution from the consolidation of Carter Holt Harvey on May 1, 1995.

International Paper's 1996 net sales of $20.1 billion increased slightly over 1995 sales of $19.8 billion, reflecting contributions from recent acquisitions that offset weak pricing experienced in major product lines. While shipments across our paper and packaging businesses were generally stronger than in 1995, prices were significantly weaker. Excluding contributions from Federal and Carter Holt Harvey, 1996 sales declined 10%. Sales in 1996 were significantly higher than 1994 sales of $15.0 billion, with over 80% of the increase due to acquisitions.

Sales totaled $6.0 billion outside the U.S. in 1996, increasing to 30% of consolidated net sales. Carter Holt Harvey contributed $2.1 billion and $1.4 billion in 1996 and 1995, respectively. International sales, including exports from the U.S., amounted to $7.4 billion, up from $7.1 billion in 1995 and $4.5 billion in 1994.

Net earnings for the year were $303 million or $1.04 per share after special items that reduced earnings by $131 million. Net earnings before special items were $434 million or $1.49 per share, one-third of 1995 record earnings of $1.2 billion or $4.50 per share. Earnings for 1994 were $357 million or $1.43 per share ($422 million or $1.69 per share before an accounting change).

Results for 1996 were considerably weaker than those of a year ago due to significantly lower average selling prices. Late 1995 through early 1996 was a period of inventory destocking by customers. As the year progressed, demand recovered but industry operating rates were not sufficient to sustain higher prices.

Despite difficult market conditions, 1996 was a year of significant accomplishment. The integration of the Federal Paper Board businesses exceeded our expectations and contributed positively to earnings. We started up a containerboard machine at Mansfield, La., a spunbond nonwovens facility in Mexico, a box plant in the United Kingdom, and an aseptic liquid packaging plant in Lyon, France.

In 1997, sales growth will come from both new capacity and higher shipments in a number of product lines, as well as including Federal for the full year. Pricing during the early months of 1997 has been disappointing. However, assuming ongoing moderate economic growth in the U.S. and Europe, our performance should improve during the year.

[Net Sales Chart -- Appendix A No. 25]

SPECIAL ITEMS

Special items reduced 1996 net earnings by $131 million or $.45 per share. Their impact on segment operating profit is shown in the table on page 42.

First-quarter results included a gain of $592 million ($336 million after taxes and minority interest or $1.25 per share) on the sale by IP Timberlands, Ltd. (IPT), a consolidated subsidiary of International Paper, of a 98% interest in a partnership that owns 300,000 acres of forestlands located in Oregon and Washington. In addition to forestlands, included in the net assets of the partnership were roads and $750 million of long-term debt. IPT and International Paper retained nonoperating interests in the partnership.

First-quarter results also included a restructuring and asset impairment charge of $515 million ($362 million after taxes or $1.35 per share). The charge reflected the costs of management actions to restructure and strengthen existing

businesses and included $305 million to write off certain assets, primarily those of the imaging products businesses; $100 million for asset impairments related to the adoption of SFAS No. 121; and one-time cash costs of $110 million (severance costs of $80 million and lease-cancellation and other expenses of $30 million). Cash costs totaling $34 million were incurred in 1996 and the balance will be spent in 1997. Our projections called for annual savings (primarily lower personnel costs and depreciation, and the reduction of operating losses) of $70 million by the end of 1996 and $100 million in 1997. We achieved 85% of the 1996 target and expect to exceed the 1997 estimate.

Fourth-quarter results included a $165 million noncash charge ($105 million after taxes or $.35 per share) to write down our 13% investment in Scitex and to record our share of costs of a restructuring program that Scitex announced in November 1996.

CASH FLOW FROM OPERATIONS

Cash flow from operations of $1.7 billion in 1996 compares with $2.2 billion in 1995 and $1.2 billion in 1994. Net earnings declined $850 million in 1996. Higher noncash items, including the $88 million net impact of special items, offset to some extent the lower earnings in 1996. Depreciation and amortization expense increased to $1.2 billion in 1996 from $1.0 billion in 1995 and $885 million in 1994 ($923 million before a change in accounting for start-up costs).

INVESTMENT ACTIVITIES

Capital spending was $1.4 billion in 1996 and $1.5 billion in 1995, up from $1.1 billion in 1994. Included in 1996 was $320 million spent by Federal Paper Board and Carter Holt Harvey. Capital spending is estimated at $1.2 billion in 1997. The primary emphasis of capital programs continues to be productivity and cost reduction. Discretionary spending in 1997 will be focused on stronger, more competitive operations.

In March 1996, we merged with Federal Paper Board, a paper and forest products company with facilities in the U.S. and the U.K. Federal shareholders received, at their election and subject to certain limitations, $55 in cash or a combination of cash and International Paper common stock for each share of Federal Paper Board common stock. To complete the merger, Federal Paper Board shares were acquired for approximately $1.3 billion in cash and $1.4 billion in International Paper common stock, and $800 million of debt was assumed.

[Cash Flow From Operations Chart -- Appendix A No. 26]

Also during 1996, Forchem, a tall oil and turpentine processor in Finland, was acquired for about $100 million; and Carter Holt Harvey acquired Forwood Products, a timber-processing business in Australia for about $100 million.

Our acquisitions in 1995 included the following: In April, about 26% of the outstanding shares of Carter Holt Harvey, bringing our ownership to just over 50%. The Carter Holt Harvey share purchases were financed with borrowings totaling $1.1 billion. (Our initial investment of 16% of Carter Holt Harvey was made in 1991 and was followed by an

CAPITAL SPENDING BY INDUSTRY SEGMENT

In millions for the years ended December 31	1996	1995	1994
Printing Papers	$ 454	$ 375	$ 447
Packaging	338	531	205
Distribution	14	18	16
Specialty Products	289	251	270
Forest Products	195	271	135
Subtotal	1,290	1,446	1,073
Corporate	104	72	41
Total	$1,394	$1,518	$1,114

additional 8% investment in 1994); in January, the assets of paper distributors Seaman-Patrick Paper Company and Carpenter Paper Company; in September, Micarta, a high-pressure laminates business; and in October, the inks and adhesives resin business of DSM in France.

FINANCING ACTIVITIES

Financing activities in 1996 included short-term borrowings of $1.3 billion used to acquire Federal Paper Board common shares. Also, $741 million of notes with maturities ranging from three to seven years were issued. And in November, IPT borrowed $450 million due in 1999 from a consortium of banks.

In November 1995, IPT issued $750 million of five-year debt and a non-U.S. subsidiary of the Company issued $300 million of U.S. dollar-denominated notes that mature in seven and 20 years, respectively. In July 1995, International Paper Capital Trust, a wholly owned subsidiary, issued $450 million of preferred securities that are convertible into International Paper common stock. Also in July, 5.75% convertible debentures were called by the Company and converted into 5.8 million shares of common stock. In 1994, we issued $600 million of long-term debt with maturities ranging from 10 to 30 years.

Unless otherwise noted, the proceeds of all of the financings described above were used to reduce short-term debt or for general corporate purposes.

Dividend payments were $291 million in 1996 ($1.00 per common share), $237 million in 1995 and $210 million in 1994. In the third quarter of 1995, we declared a two-for-one stock split and raised the quarterly dividend from $.21 to $.25 per common share.

CAPITAL RESOURCES OUTLOOK FOR 1997

Our financial condition continues to be strong. The ratio of debt to total capital remained at 39% for 1996 and 1995 and was 41% in 1994. The Company anticipates that cash flow from operations, supplemented as necessary by short- or long-term borrowings, will be adequate to fund its capital expenditures, to service existing debt, and to meet working capital and dividend requirements during 1997. Our first priority for using excess cash is to repay debt.

OTHER FINANCIAL STATEMENT ITEMS

Net interest expense totaled $530 million in 1996, increasing from $493 million in 1995 and $349 million in 1994. The increase over 1995 reflects the cost of debt issued by the Company to acquire Federal Paper Board shares, as well as debt assumed in that merger, and a full year of interest from Carter Holt Harvey.

[Debt to Capital Ratio Chart -- Appendix A No. 27]

Minority interest expense was $169 million in 1996 (including $32 million for the minority owners' share of a gain on the sale by IPT of an interest in a forestlands partnership). Minority interest expense was $156 million in 1995 and $47 million in 1994. The increases over 1994 are due to the consolidation of Carter Holt Harvey.

The full-year impact of the consolidation of Carter Holt Harvey and the merger with Federal Paper Board contributed between 12% and 22% to each of the components of 1996 consolidated costs and expenses. The Federal merger was the primary reason for increases in net property, plant and equipment, forestlands, goodwill, long-term debt and working capital components.

Investments include Scitex and Carter Holt Harvey's interest in COPEC. The decline in 1996 reflects the write-down of the Scitex investment.

The effective tax rate was 41% of pre-tax income in 1996 (36% before special items), 35.5% in 1995 and 33% in 1994. Components of the restructuring and asset impairment charge that were not deductible for tax purposes, as well as the taxes at statutory rates on the gain on IPT's sale of a partnership interest, caused the effective tax rate to increase in 1996. We expect the effective tax rate for 1997 to be in the range of 36% to 37%.

RECENT ACCOUNTING PRONOUNCEMENTS

In 1996, we adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of this statement resulted in a pre-tax charge of $100 million that was included in the restructuring and asset impairment charge recorded in the first quarter. We also adopted SFAS No. 123, "Accounting for Stock-Based Compensation." Disclosures required by this statement are presented in Note 18 to the consolidated financial statements.

In 1997, we will adopt the provisions of American Institute of Certified Public Accountants Statement of Position 96-1, "Environmental Remediation Liabilities." We estimate that adoption will not have a material effect on the Company's financial position or results of operations.

ACCOUNTING CHANGE

In 1994, International Paper changed its method of accounting for start-up costs to expense them as incurred. Prior to 1994, our policy had been to capitalize start-up costs on major projects and amortize them over five years. The change resulted in a one-time after-tax charge of $75 million or $.30 per share, while increasing 1994 earnings by $10 million or $.04 per share. The net reduction in 1994 earnings was $65 million or $.26 per share.

LEGAL AND ENVIRONMENTAL ISSUES

Environmental capital expenditures totaled $130 million in 1996, $108 million in 1995 and $95 million in 1994. During 1996, we completed the conversion of 13 of our U.S. and European bleached mills to elemental chlorine-free technology, and two additional mills acquired as part of the Federal Paper Board merger will be converted by the end of 1998.

In 1993, the EPA released its "Cluster Rule" proposal to coordinate and integrate the requirements for air emissions and water discharges for the pulp and paper industry. Separately, the EPA has now promulgated regulations implementing the Great Lakes Initiative (GLI) covering water quality and permitting implementation procedures in states bordering the Great Lakes. Future spending will be heavily influenced by the final Cluster Rule and, in the case of the GLI, by how the individual Great Lakes states implement the program. In 1994, the Company estimated future capital spending to comply with the Cluster Rule as proposed and GLI to be between $700 million and $1.5 billion. There have as yet been no publicly announced decisions on the Cluster Rule, and thus these original estimates must remain. Nevertheless, there is reason to expect that when the rule is promulgated, now expected during the spring of 1997, it will permit the downward adjustment of these estimates.

On September 26, 1996, Arizona Chemical Company (Arizona), a wholly owned subsidiary, entered a plea of guilty to two counts alleging violations of the Clean Water Act at a facility in Gulfport, Miss., and one count alleging violations of hazardous waste requirements at a facility in Picayune, Miss. Pursuant to an agreement with the government, Arizona paid a criminal penalty of $2.5 million and was placed on probation for three years. Arizona

also paid a civil penalty of $150,000 and restitution in the amount of $1.5 million to the Mississippi Department of Environmental Quality.

In addition to the resolution of the Arizona matter, the Company paid civil penalties related to environmental issues of $1.1 million, $630,000 and $960,000 for the years, 1996, 1995 and 1994, respectively. There are routine inspections in progress by federal and state environmental agencies at some facilities to determine the Company's compliance with environmental laws and regulations. We would not expect any fines that may result to have a material adverse effect on our future financial condition or results of operations.

International Paper is also a party to other environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act. Related costs are recorded in the financial statements when probable and reasonably estimable. Completion of these actions is not expected to have a material adverse effect on the Company's future financial condition or results of operations. Further details can be found in the Company's quarterly reports on Form 10-Q and annual report on Form 10-K filed with the Securities and Exchange Commission. Copies can be obtained as indicated on page 64 of this report.

Masonite Corporation, a wholly owned subsidiary of the Company, and the Company are parties to a nationwide class action lawsuit in state court in Alabama purporting to represent plaintiffs nationwide who purchased Masonite siding since 1980. The suit alleges that Masonite hardboard siding is inherently defective and that Masonite knowingly and falsely advertised and sold a defective product. Masonite and the Company are vigorously contesting the allegations. After a split jury decision in the first phase of the Alabama case in September 1996 on the single issue of product defect, the court has set the remaining issues for trial in July 1997. Similar allegations were made in a proposed class action case pending in Federal Court in New Orleans. The federal judge, after reviewing the same factual and legal issues as presented in the Alabama case, denied class certification on February 19, 1997.

While any proceeding or litigation has the element of uncertainty, the Company believes that the outcome of any lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position or results of operations. For a further discussion of legal issues, see Note 11 to the consolidated financial statements on page 52 and Item 3 (Legal Proceedings) of the annual report on Form 10-K.

EFFECT OF INFLATION

General inflation has had minimal impact on our operating results. Sales prices and volumes are more strongly influenced by supply-and-demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

FINANCIAL REVIEW BY SEGMENT

Management's discussion and analysis of results by industry segment appears on pages 18 (Printing Papers), 22 (Packaging), 26 (Distribution), 30 (Specialty Products) and 34 (Forest Products), and is incorporated herein by reference. Comments refer to segment operating profit before special items, unless otherwise noted.

FINANCIAL INFORMATION BY GEOGRAPHIC AREA

NET SALES

IN MILLIONS	1996	1995	1994
United States(1),(2)	$ 14,512	$ 14,610	$ 11,965
Europe(2)	3,583	3,791	2,958
Pacific Rim(3)	2,263	1,571	195
Other	186	188	159
Less: Intergeographic Sales	(401)	(363)	(311)
Net Sales	$ 20,143	$ 19,797	$ 14,966

EUROPEAN SALES BY INDUSTRY SEGMENT

IN MILLIONS	1996	1995	1994
Printing Papers(2)	$ 1,506	$ 1,664	$ 1,231
Packaging	707	756	559
Distribution	334	378	318
Specialty Products	1,006	960	819
Forest Products	30	33	31
European Sales	$ 3,583	$ 3,791	$ 2,958

ASSETS

IN MILLIONS	1996	1995	1994
United States(2)	$ 15,695	$ 12,033	$ 11,237
Europe(2)	4,405	4,252	3,818
Pacific Rim(3)	4,779	4,334	129
Other	187	192	145
Equity Investments	1,070	1,291	967
Corporate	2,116	1,875	1,540
Assets	$ 28,252	$ 23,977	$ 17,836

OPERATING PROFIT

IN MILLIONS	1996			1995	1994
	Before Special Items	Special Items	After Special Items		
United States(2)	$ 1,272	$ 306	$1,578	$2,062	$ 955
Europe(2)		(218)	(218)	251	97
Pacific Rim(3)	218		218	216	15
Other	11		11	6	6
Operating Profit(4)	$ 1,501	$ 88	$1,589	$2,535	$1,073

(1) Export sales to unaffiliated customers (in billions) were $1.4 in 1996, $1.5 in 1995 and $1.2 in 1994.
(2) Includes the results of Federal Paper Board from March 12, 1996.
(3) Includes the results of Carter Holt Harvey from May 1, 1995 except for earnings from its investment in COPEC, which are included in corporate items, net.
(4) Includes amounts for acquisitions, net of goodwill amortization, from the dates of acquisition.

Europe

Sales from our European businesses declined $210 million or 5% in 1996 after increasing $835 million or 28% in 1995. Results were break-even in 1996 before a $218 million restructuring charge, primarily relating to the imaging products division. This resulted in a $218 million operating loss and compares with profits of $251 million in 1995 and $97 million in 1994.

Pulp and paper prices declined significantly in 1996 after rising rapidly during the first half of 1995. This resulted in an operating loss for printing papers, including Aussedat Rey and Zanders, that was offset by profits in other sectors. Sales from acquisitions including Federal's uncoated papers mill in Scotland, and Forchem, a chemical processor in Finland, offset about one-half of the sales impact of lower prices.

Our outlook is for prices to improve modestly from the current low levels. We expect 1997 to benefit from restructuring programs, the Kwidzyn modernization completed in 1996, and several new production facilities including an aseptic packaging plant in France, a corrugated box plant in the United Kingdom and a door facings facility in Ireland.

Pacific Rim

Carter Holt Harvey accounts for most of International Paper's activities in the Pacific Rim. It is a New Zealand-based integrated forest and paper products company with substantial assets in Chile. Recent acquisitions have positioned Carter Holt Harvey as the largest tissue producer in Australasia and the second largest supplier of wood products in the Australian market.

Carter Holt Harvey's results have been consolidated with International Paper's on a one-month lag since May 1995, at which time International Paper increased its ownership from 24% to just over 50%.

International Paper's consolidated results for 1996 include Carter Holt Harvey sales of $2.1 billion and operating profit of $211 million. This compares with $1.4 billion and $206 million, respectively, for the eight-month period ended December 31, 1995.

Sales and operating profit in 1996 were adversely affected by lower prices for logs, wood products and pulp as well as lower margins in packaging. Carter Holt Harvey has implemented a number of margin improvement initiatives that have already realized cost savings in lower personnel costs, logistics and procurement. Also, a capital project to modernize the Kinleith mill, reduce its costs and increase productivity will begin in 1997.

A breakdown of Carter Holt Harvey's sales by industry segment as they relate to International Paper is included on page 42.

FINANCIAL INFORMATION BY INDUSTRY SEGMENT

NET SALES

IN MILLIONS	1996	1995	1994
Printing Papers	$ 5,640	$ 6,090	$ 4,400
Packaging	4,945	4,475	3,375
Distribution	4,675	5,040	3,470
Specialty Products	3,475	3,260	2,590
Forest Products	2,665	2,140	1,715
Less: Intersegment Sales	(1,257)	(1,208)	(584)
Net Sales	$ 20,143	$ 19,797	$ 14,966

ASSETS

IN MILLIONS	1996	1995	1994
Printing Papers	$ 8,627	$ 7,121	$ 6,706
Packaging	6,088	4,150	3,098
Distribution	1,346	1,454	1,210
Specialty Products	3,636	3,639	2,782
Forest Products	5,369	4,447	1,533
Equity Investments	1,070	1,291	967
Corporate(2)	2,116	1,875	1,540
Assets	$ 28,252	$ 23,977	$ 17,836

OPERATING PROFIT

IN MILLIONS	1996	1995	1994
Printing Papers	$ 185	$ 1,093	$ 20
Packaging	421	741	293
Distribution	109	106	74
Specialty Products	(51)	207	268
Forest Products	925	388	418
Operating Profit	1,589	2,535	1,073
Interest Expense, net	(530)	(493)	(349)
Corporate Items, net(3)	(257)	(14)	(9)
Earnings Before Income Taxes, Minority Interest and Cumulative Effect of Accounting Change	$ 802	$ 2,028	$ 715

1996 OPERATING PROFIT

IN MILLIONS	Before Special Items	Special Items	After Special Items
Printing Papers	$ 220	$ (35)	$ 185
Packaging	463	(42)	421
Distribution	109		109
Specialty Products	319	(370)	(51)
Forest Products	390	535	925
Operating Profit	1,501	88	1,589
Interest Expense, net	(530)		(530)
Corporate Items, net(3)	(81)	(176)(4)	(257)
Earnings Before Income Taxes and Minority Interest	$ 890	$ (88)	$ 802

DEPRECIATION, DEPLETION AND AMORTIZATION

IN MILLIONS	1996	1995	1994

Printing Papers	$ 528	$ 475	$ 443
Packaging	329	246	192
Distribution	35	35	29
Specialty Products	194	199	161
Forest Products	220	150	96
Corporate	9	6	5
Depreciation, Depletion and Amortization	1,315	1,111	926
Less: Depletion(5)	(121)	(80)	(41)
Depreciation and Amortization	$ 1,194	$ 1,031	$ 885

(1) 1995 net sales have been adjusted to conform with the current-year presentation.

(2) Corporate assets are principally cash and temporary investments, investments, deferred taxes and other assets that are not identifiable with industry segments.
(3) Corporate Items, net includes our share of earnings from equity investments and unallocated corporate expenses. In 1996, earnings from equity investments decreased by $40 million because of losses at Scitex and lower pulp earnings at COPEC. The remaining increase resulted from higher corporate expenses because of Federal Paper Board and Carter Holt Harvey.
(4) Includes the write-down of the Scitex investment.
(5) Included in Forest Products.

FEDERAL PAPER BOARD AND CARTER HOLT HARVEY SALES

The financial statements reflect the merger with Federal Paper Board (March 12, 1996) and the consolidation of Carter Holt Harvey (May 1, 1995). Their net sales, adjusted to conform with International Paper's classifications, are presented below.

1996 NET SALES

IN MILLIONS

	International Paper	Federal Paper Board	Carter Holt Harvey	Consolidated
Printing Papers	$ 4,941	$ 565	$ 134	$ 5,640
Packaging	3,659	650	636	4,945
Distribution	4,538		137	4,675
Specialty Products	2,924		551	3,475
Forest Products	1,492	222	951	2,665
Less: Intersegment Sales	(877)	(50)	(330)	(1,257)
Net Sales	$ 16,677	$ 1,387	$ 2,079	$ 20,143

1995 NET SALES(1)

IN MILLIONS

	International Paper	Carter Holt Harvey	Consolidated
Printing Papers	$ 5,973	$ 117	$ 6,090
Packaging	4,062	413	4,475
Distribution	4,945	95	5,040
Specialty Products	2,889	371	3,260
Forest Products	1,521	619	2,140
Less: Intersegment Sales	(961)	(247)	(1,208)
Net Sales	$ 18,429	$ 1,368	$ 19,797

REPORT OF MANAGEMENT ON FINANCIAL STATEMENTS

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

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

An important part of the internal controls system is the Company's Policy on Ethical Business Conduct, which requires employees to maintain the highest ethical and legal standards in their conduct of Company business. The internal controls system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout the Company, and an extensive program of internal audits with management follow-up. The Company maintains a toll-free telephone "compliance line" whereby any employee may report suspected violations of law or Company policy.

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

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

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

/s/ Marianne M. Parrs

Marianne M. Parrs
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of International Paper Company:

We have audited the accompanying consolidated balance sheets of International Paper Company (a New York corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of earnings, common shareholders' equity and cash flows for each of the three years ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Paper Company and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years ended December 31, 1996 in conformity with generally accepted accounting principles.

As explained in Note 19 to the financial statements, effective January 1, 1994, the Company changed its method of accounting for start-up costs.

/s/ Arthur Anderson LLP

New York, N.Y.
February 7, 1997

CONSOLIDATED STATEMENT OF EARNINGS

IN MILLIONS, EXCEPT PER SHARE AMOUNTS, FOR THE YEARS ENDED DECEMBER 31	1996	1995	1994
NET SALES	$ 20,143	$19,797	$14,966
COSTS AND EXPENSES			
Cost of products sold	14,901	13,896	11,092
Selling and administrative expenses	1,509	1,381	1,082
Depreciation and amortization	1,194	1,031	885
Distribution expenses	925	794	692
Taxes other than payroll and income taxes	194	174	151
Restructuring and asset impairment charges	680		
TOTAL COSTS AND EXPENSES	19,403	17,276	13,902
Gain on sale of partnership interest	592		
EARNINGS BEFORE INTEREST, INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	1,332	2,521	1,064
Interest expense, net	530	493	349
EARNINGS BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	802	2,028	715
Provision for income taxes	330	719	236
Minority interest expense, net of taxes	169	156	47
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	303	1,153	432
Cumulative effect of change in accounting for start-up costs (less tax benefit of $50) -- Note 19			(75)
NET EARNINGS	$ 303	$ 1,153	$ 357
EARNINGS PER COMMON SHARE			
Earnings before cumulative effect of accounting change	$ 1.04	$ 4.50	$ 1.73
Cumulative effect of change in accounting for start-up costs -- Note 19			(.30)
EARNINGS PER COMMON SHARE	$ 1.04	$ 4.50	$ 1.43

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

CONSOLIDATED BALANCE SHEET

IN MILLIONS AT DECEMBER 31	1996	1995
ASSETS		
Current Assets		
Cash and temporary investments	$ 352	$ 312
Accounts and notes receivable, less allowances of $101 in 1996 and 1995	2,553	2,571
Inventories	2,840	2,784
Other current assets	253	206
Total Current Assets	5,998	5,873
Plants, Properties and Equipment, Net	13,217	10,997
Forestlands	3,342	2,803
Investments	1,178	1,420
Goodwill	2,748	1,355
Deferred Charges and Other Assets	1,769	1,529
TOTAL ASSETS	$28,252	$23,977
LIABILITIES AND COMMON SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 3,296	$ 2,283
Accounts payable	1,426	1,464
Accrued liabilities	1,172	1,116
Total Current Liabilities	5,894	4,863
Long-Term Debt	6,691	5,946
Deferred Income Taxes	2,768	1,974
Other Liabilities	1,240	980
Minority Interest	1,865	1,967
International Paper-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely International Paper Subordinated Debentures -- Note 8	450	450
Commitments and Contingent Liabilities -- Note 11		
Common Shareholders' Equity		
Common stock, $1 par value, issued at December 31, 1996 -- 300.8 shares, 1995 -- 263.3 shares	301	263
Paid-in capital	3,426	1,963
Retained earnings	5,639	5,627
	9,366	7,853
Less: Common stock held in treasury, at cost, 1996 -- 0.6 shares, 1995 -- 2.3 shares	22	56
Total Common Shareholders' Equity	9,344	7,797
TOTAL LIABILITIES AND COMMON SHAREHOLDERS' EQUITY	$28,252	$23,977

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

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS FOR THE YEARS ENDED DECEMBER 31	1996	1995	1994
OPERATING ACTIVITIES			
Net earnings	$ 303	$ 1,153	$ 357
Cumulative effect of accounting change			75
Noncash items			
Gain on sale of partnership interest	(592)		
Restructuring and asset impairment charges	680		
Depreciation and amortization	1,194	1,031	885
Deferred income taxes	107	146	42
Other, net	133	(92)	(34)
Changes in current assets and liabilities			
Accounts and notes receivable	192	45	(339)
Inventories	174	(320)	8
Accounts payable and accrued liabilities	(433)	289	252
Other	(19)	(4)	(3)
CASH PROVIDED BY OPERATIONS	1,739	2,248	1,243
INVESTMENT ACTIVITIES			
Invested in capital projects	(1,394)	(1,518)	(1,114)
Mergers and acquisitions, net of cash acquired	(1,527)	(1,168)	(357)
Consolidation of equity investment		241	
Other	(59)	(111)	(39)
CASH USED FOR INVESTMENT ACTIVITIES	(2,980)	(2,556)	(1,510)
FINANCING ACTIVITIES			
Issuance of common stock	100	66	67
Issuance of preferred securities by subsidiary trust		450	
Issuance of debt	1,909	1,055	1,059
Reduction of debt	(375)	(950)	(275)
Change in bank overdrafts	(23)	57	(115)
Dividends paid	(291)	(237)	(210)
Other	(40)	(100)	(235)
CASH PROVIDED BY FINANCING ACTIVITIES	1,280	341	291
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1	9	4
CHANGE IN CASH AND TEMPORARY INVESTMENTS	40	42	28
CASH AND TEMPORARY INVESTMENTS			
Beginning of the year	312	270	242
End of the year	$ 352	$ 312	$ 270

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

CONSOLIDATED STATEMENT OF COMMON SHAREHOLDERS' EQUITY

IN MILLIONS, EXCEPT SHARE AMOUNTS IN THOUSANDS

	Common Stock Issued				Treasury Stock		Total Common Shareholders' Equity
	Shares	Amount	Paid-In Capital(1)	Retained Earnings	Shares	Amount	
BALANCE, JANUARY 1, 1994	254,574	$ 254	$ 1,577	$ 4,553	6,798	$ 159	$ 6,225
Issuance of stock for merger	1,638	2	14	11			27
Issuance of stock for various plans	276		30		(2,100)	(48)	78
Cash dividends -- Common stock ($.84 per share)				(210)			(210)
Foreign currency translation (less tax benefit of $70)			37				37
Net earnings				357			357
BALANCE, DECEMBER 31, 1994	256,488	256	1,658	4,711	4,698	111	6,514
Issuance of stock for acquisitions	988	1	37				38
Issuance of stock for various plans			27		(2,445)	(55)	82
Conversion of subordinated debentures	5,785	6	199				205
Cash dividends -- Common stock ($.92 per share)				(237)			(237)
Foreign currency translation (less tax benefit of $66)			42				42
Net earnings				1,153			1,153
BALANCE, DECEMBER 31, 1995	263,261	263	1,963	5,627	2,253	56	7,797
Issuance of stock for merger	35,348	35	1,368				1,403
Issuance of stock for various plans	2,215	3	67		(2,567)	(70)	140
Repurchase of stock					868	36	(36)
Cash dividends -- Common stock ($1.00 per share)				(291)			(291)
Foreign currency translation (less tax expense of $36)			28				28
Net earnings				303			303
BALANCE, DECEMBER 31, 1996	300,824	$ 301	$ 3,426	$ 5,639	554	$ 22	$ 9,344

(1) The cumulative foreign currency translation adjustment (in millions) was $(173), $(201) and $(243) at December 31, 1996, 1995 and 1994, respectively.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of International Paper Company and its subsidiaries (the Company). Minority interest represents minority shareholders' proportionate share of the equity in several of the Company's consolidated subsidiaries, primarily Carter Holt Harvey Limited, IP Timberlands, Ltd. (IPT), Zanders Feinpapiere AG, Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L.P. All significant intercompany balances and transactions are eliminated. Investments in affiliated companies owned 20% to 50%, and the Company's investment in Scitex Corporation Ltd., where the Company has the ability to exercise significant influence, are accounted for by the equity method. The Company's share of affiliates' earnings is included in the consolidated statement of earnings. The results of Carter Holt Harvey are consolidated on a one-month-lag basis due to the availability of financial information.

Temporary Investments

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

Inventories

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

Plants, Properties and Equipment

Plants, properties and equipment are stated at cost, less accumulated depreciation. For financial reporting purposes, the Company uses the units-of-production method for depreciating its major pulp and paper mills and certain wood products facilities and the straight-line method for other plants and equipment. Annual straight-line depreciation rates are: buildings, 2 1/2% to 8 1/2%, and machinery and equipment, 5% to 33%. For tax purposes, depreciation is computed utilizing accelerated methods.

Interest costs related to the development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs of $67 million in 1996, $58 million in 1995 and $18 million in 1994. Interest payments made during 1996, 1995 and 1994 were $658 million, $603 million and $369 million, respectively. Total interest expense was $583 million in 1996, $542 million in 1995 and $371 million in 1994.

Forestlands

The Company, which currently owns 84% and 100% of IPT's Class A and Class B Units, respectively, controlled approximately 6.4 million acres of forestlands in the United States and, through its ownership of Carter Holt Harvey, approximately 800,000 acres of forestlands in New Zealand at December 31, 1996. Forestlands are stated at cost, less accumulated depletion representing the cost of timber harvested. Forestlands include owned property as well as certain timber harvesting rights with terms of one or more years. Costs attributable to timber are charged against income as trees are cut. The depletion rate charged is determined annually based on the relationship of remaining costs to estimated recoverable volume.

Translation of Financial Statements

Balance sheets of the Company's international operations are translated into U.S. dollars at year-end exchange rates, while statements of earnings are translated at average rates. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in paid-in capital. Gains and losses resulting from foreign currency transactions are included in earnings.

Amortization of Intangible Assets

Goodwill, the cost in excess of assigned value of businesses acquired, is amortized for periods of up to 40 years. Accumulated amortization was $296 million and $235 million at December 31, 1996 and 1995, respectively.

Revenue Recognition

The Company recognizes revenues when goods are shipped.

Earnings Per Common Share

Earnings per common share were computed on the basis of the following average number of shares outstanding (in millions): 1996-292.1, 1995-256.5 and 1994-249.7. The effect of all dilutive securities is immaterial.

Nature of the Company's Business

The Company is a worldwide producer of paper, packaging and forest products, all complemented by related specialty products and an extensive distribution system, with primary markets and manufacturing operations in the United States, Europe and the Pacific Rim. Substantially all of the Company's businesses have experienced and are likely to continue to experience cycles relating to available industry capacity and general economic conditions. For a further discussion of the Company's business, see pages

36 through 40 of management's discussion and analysis of financial condition and results of operations.

Financial Statements

The preparation of these financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. For a further discussion of significant estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations, and disclosure of contingent assets and liabilities, see the legal and environmental issues section on pages 39 and 40.

Reclassifications

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

Stock-Based Compensation

Stock options and other stock-based compensation awards are accounted for using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations.

NOTE 2. INDUSTRY SEGMENT INFORMATION

Financial information by industry segment and geographic area for 1996, 1995 and 1994 is presented on pages 37, 41 and 42.

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

The American Institute of Certified Public Accountants issued Statement of Position 96-1, "Environmental Remediation Liabilities" (the SOP), in October 1996. The SOP provides guidance concerning the recognition, measurement and disclosure of environmental remediation liabilities and is effective for fiscal years beginning after December 15, 1996. The Company will adopt the provisions of the SOP in 1997 and estimates that adoption will not have a material effect on its financial position or results of operations.

NOTE 4. MERGERS AND ACQUISITIONS

On March 12, 1996, the Company completed the merger with Federal Paper Board (Federal), a diversified forest and paper products company. Under the terms of the merger agreement, Federal shareholders received, at their election and subject to certain limitations, $55 in cash or a combination of cash and International Paper common stock worth $55 for each share of Federal common stock. To complete the merger, Federal shares were acquired for approximately $1.3 billion in cash and $1.4 billion in International Paper common stock, and approximately $800 million of debt was assumed.

In August 1996, the Company acquired Forchem, a tall oil and turpentine processor in Finland. In September 1996, Carter Holt Harvey acquired Forwood Products, the timber-processing business of the South Australian Government.

The consolidated balance sheet at December 31, 1996 includes preliminary purchase price allocations for Forchem and Forwood Products. Final allocations for these acquisitions will be completed in 1997.

In late April 1995, the Company acquired approximately 26% of Carter Holt Harvey, a New Zealand-based forest and paper products company for $1.1 billion. The acquisition increased International Paper's ownership to just over 50%. As a result, Carter Holt Harvey was consolidated into International Paper's financial statements beginning on May 1, 1995. Prior to this date, the equity accounting method was utilized. As a result of this consolidation, the Company's consolidated cash and temporary investments balance increased by $241 million, representing approximately 74% of Carter Holt Harvey's cash and temporary investments balance as of the acquisition date. This is reflected in the consolidated statement of cash flows as the consolidation of an equity investment. The acquisition of Carter Holt Harvey is presented net of 26% of its cash and temporary investments as of the acquisition date.

In January 1995, the assets of both Seaman-Patrick and Carpenter Paper Companies, two Michigan-based paper distribution companies, were acquired by issuing approximately 988,000 shares of common stock. In September, Micarta, the South Carolina-based high-pressure laminates business of Westinghouse, was acquired. In October, the Company purchased the inks and adhesives resin business of DSM located in Niort, France.

In December 1994, the Company acquired additional stock of Zanders Feinpapiere AG. Also in December, a merger was completed with Kirk

Paper Corporation, a California-based paper distribution company.

With the exception of Kirk Paper Corporation, which was accounted for as a pooling-of-interests, all of the 1996, 1995 and 1994 acquisitions were accounted for using the purchase method. The operating results of these mergers and acquisitions have been included in the consolidated statement of earnings from the dates of acquisition.

NOTE 5. PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information reflects the combined results of the continuing operations of the Company and the 1996 acquisitions listed in Note 4.

The pro forma information is presented as if the transactions occurred as of the beginning of each respective year. The pro forma adjustments are based on available information, preliminary purchase price allocations and certain assumptions that the Company believes are reasonable. There can be no assurance that the assumptions and estimates would have been realized. The pro forma information does not purport to represent the Company's actual results of operations if the transactions described above would have occurred at the beginning of the respective years, nor is it indicative of the actual results since acquisition. In addition, the information may not be indicative of future results.

In millions, except per share amounts, for the years ended December 31 (Unaudited)	1996	1995
Net Sales	$20,500	$22,777
Net Earnings	289	1,267
Earnings Per Common Share	.96	4.30

NOTE 6. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

In the first quarter of 1996, the Company adopted the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS No. 121). This statement requires that such assets be reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable and that such assets be reported at the lower of their carrying amount or fair value. The adoption of the provisions of this statement resulted in a pre-tax charge to earnings totaling $100 million as noted below.

Also in the first quarter of 1996, the Company's Board of Directors authorized a series of management actions to restructure and strengthen existing businesses that resulted in a pre-tax charge to earnings of $515 million ($362 million after taxes or $1.35 per share). The charge included $305 million for the write-off of certain assets, $100 million for asset impairments (related to the adoption of SFAS No. 121), $80 million in associated severance costs and $30 million of other expenses, including the cancellation of leases. Accruals for one-time cash costs, which include severance costs and other expenses, totaled $110 million. Approximately $34 million of these costs were incurred in 1996 and the remainder will be spent in 1997.

In the fourth quarter of 1996, the Company recorded a $165 million pre-tax charge ($105 million after taxes or $.35 per share) for the write-down of its investment in Scitex, a company that markets digital communication products, and to record its share of a restructuring charge announced by Scitex in November 1996.

NOTE 7. GAIN ON SALE OF PARTNERSHIP INTEREST

On March 29, 1996, IP Timberlands, Ltd. (IPT) completed the sale of a 98% general partnership interest in a subsidiary partnership that owns approximately 300,000 acres of forestlands located in Oregon and Washington. Included in the net assets of the partnership interest sold were forestlands, roads and $750 million of long-term debt. As a result of this transaction, International Paper recognized in its first-quarter consolidated results a $592 million pre-tax gain ($336 million after taxes and minority interest expense or $1.25 per share). IPT and International Paper retained nonoperating interests in the partnership.

NOTE 8. PREFERRED SECURITIES OF SUBSIDIARY

In the third quarter of 1995, International Paper Capital Trust (the Trust) issued $450 million of International Paper-obligated mandatorily redeemable preferred securities. The Trust is a wholly owned consolidated subsidiary of International Paper and its sole assets are International Paper 5 1/4% convertible subordinated debentures. The obligations of the Trust related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are convertible into International Paper common stock. Preferred securities distributions of $24 million were paid in 1996 and $10 million were paid in 1995.

NOTE 9. SALE OF LIMITED PARTNERSHIP INTERESTS

During 1993, the Company contributed assets with a fair market value of approximately $900 million to two newly formed limited partnerships, Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L.P. These partnerships are separate and distinct legal entities from the Company and have separate assets, liabilities, business functions and operations. However, for accounting purposes, the Company continues to consolidate these assets, and the minority shareholders' interests are reflected as minority interest in the

accompanying financial statements. The purpose of the partnerships is to invest in and manage a portfolio of assets including pulp and paper equipment used at the Georgetown, S.C., and Ticonderoga, N.Y., mills. This equipment is leased to the Company under long-term leases. Partnership assets also include floating rate notes, debentures and cash. During 1993, outside investors purchased a portion of the Company's limited partner interests for $132 million and also contributed an additional $33 million to one of these partnerships.

At December 31, 1996, the Company held aggregate general and limited partner interests totaling 83.5% in Georgetown Equipment Leasing Associates, L.P. and 81.4% in Trout Creek Equipment Leasing, L.P. The Company also held $378 million and $315 million of borrowings at December 31, 1996 and 1995, respectively, from these partnerships. These funds are being used for general corporate purposes.

NOTE 10. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes whereby deferred income taxes are recorded for the future tax consequences attributable to differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are revalued to reflect new tax rates in the periods rate changes are enacted.

The components of earnings before income taxes, minority interest and cumulative effect of an accounting change, and the provision for income taxes by taxing jurisdiction were:

In millions	1996	1995	1994
Earnings (losses)			
U.S.	$ 815	$ 1,565	$ 646
Non-U.S.	(13)	463	69
Earnings before income taxes, minority interest and cumulative effect of accounting change	$ 802	$ 2,028	$ 715

In millions	1996	1995	1994
Current tax provision			
U.S. federal	$ 158	$ 380	$ 148
U.S. state and local	1	88	10
Non-U.S.	64	105	36
	223	573	194
Deferred tax provision			
U.S. federal	146	141	23
U.S. state and local	(3)	(6)	24
Non-U.S.	(36)	11	(5)
	107	146	42
Provision for income taxes	$ 330	$ 719	$ 236

The Company made income tax payments of $286 million, $413 million and $75 million in 1996, 1995 and 1994, respectively.

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

In millions	1996	1995	1994
Earnings before income taxes, minority interest and cumulative effect of accounting change	$ 802	$ 2,028	$ 715
Statutory U.S. income tax rate	35%	35%	35%
Tax expense using statutory U.S. income tax rate	281	710	250
State and local taxes	(1)	53	22
Non-U.S. tax rate differences	37	(45)	(4)
Minority interest	(37)	(32)	(14)
Goodwill	21	8	8
Net U.S. tax on non-U.S. dividends	54	3	2
Tax credits	(23)	(5)	(6)
Other, net	(2)	27	(22)
Provision for income taxes	$ 330	$ 719	$ 236
Effective income tax rate	41%	35.5%	33%

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The net deferred income tax liability as of December 31, 1996 and 1995 includes the following components:

In millions	1996	1995
Current deferred tax asset	$ 107	$ 86
Noncurrent deferred tax liability(1)	(2,576)	(1,796)
Total	$(2,469)	$(1,710)

(1) Net of $192 million and $178 million at December 31, 1996 and 1995, respectively, of noncurrent deferred tax assets.

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 1996 and 1995 were as follows:

In millions	1996	1995
Plants, properties and equipment	$(2,332)	$(1,772)
Prepaid pension costs	(299)	(286)
Forestlands	(622)	(176)
Postretirement benefit accruals	174	166
Alternative minimum and other tax credits	173	90
Non-U.S. net operating losses	148	146
Other	289	122
Total	$(2,469)	$(1,710)

The Company had net operating loss carryforwards applicable to non-U.S. subsidiaries of which $204 million expire in years 1998 through 2006 and $299 million can be carried forward indefinitely.

Deferred taxes are not provided for temporary differences of approximately $361 million, $501 million and $297 million as of December 31, 1996, 1995 and 1994, respectively, representing earnings of non-U.S. subsidiaries that are intended to be permanently reinvested. If these earnings were remitted, the Company believes that U.S. foreign tax credits would eliminate any significant impact on future income tax provisions.

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases certain property, machinery and equipment under cancelable and noncancelable lease agreements. At December 31, 1996, total future minimum rental commitments under noncancelable leases were $470 million, due as follows:

1997-$129 million, 1998-$105 million, 1999-$83 million, 2000-$64 million, 2001-$45 million, and thereafter-$44 million. Rent expense was $198 million, $159 million and $124 million for 1996, 1995 and 1994, respectively.

Masonite Corporation, a subsidiary of the Company, and the Company are parties to a class action lawsuit in state court in Alabama purporting to represent plaintiffs who purchased Masonite hardboard siding since 1980. The suit alleges, among other things, that Masonite hardboard siding is inherently defective and that Masonite knowingly and falsely advertised and sold a defective product. Masonite and the Company are vigorously contesting the allegations.

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

NOTE 12. SUPPLEMENTARY BALANCE SHEET INFORMATION

Inventories by major category were:

In millions at December 31	1996	1995
Raw materials	$ 552	$ 591
Finished pulp, paper and packaging products	1,400	1,340
Finished lumber and panel products	215	223
Operating supplies	397	343
Other	276	287
Inventories	$2,840	$2,784

The Company uses the last-in, first-out inventory method to value substantially all of its domestic inventories. Approximately 70% of the Company's total raw materials and finished products inventories were valued using this method. If the first-in, first-out method had been used, it would have increased total inventory balances by approximately $228 million, $227 million and $194 million at December 31, 1996, 1995 and 1994, respectively.

Plants, properties and equipment by major classification were:

In millions at December 31	1996	1995
Pulp, paper and packaging facilities		
Mills	$16,386	$13,554
Packaging plants	1,620	1,508
Wood products facilities	1,914	1,754
Other plants, properties and equipment	2,811	2,597
Gross cost	22,731	19,413
Less: Accumulated depreciation	9,514	8,416
Plants, properties and equipment, net	$13,217	$10,997

NOTE 13. DEBT AND LINES OF CREDIT

A summary of long-term debt follows:

In millions at December 31	1996	1995
8 7/8% to 10% debentures -- due 2011-2012	$ 325	
8 7/8% to 9.7% notes -- due 2000-2004	600	$ 600
8 3/8% to 9 1/2% debentures -- due 2015-2024	300	300

6 7/8% to 7 7/8% notes -- due 2000-2007	1,223	798
6 7/8% to 8 1/8% notes -- due 2023-2024	545	545
6 1/8% notes -- due 2003	199	199
6.11% debentures		750
5 7/8% Swiss franc debentures -- due 2001	88	98
5 1/8% debentures -- due 2012	82	81
Floating rate notes -- due 1999(1)	450	
Medium-term notes -- due 1997-2009(2)	664	516
Environmental and industrial development bonds -- due 1997-2020(3),(4)	981	916
Commercial paper and bank notes(5)	727	581
Other(6)	814	818
Total(7)	6,998	6,202
Less: Current maturities	307	256
Long-term debt	$6,691	$5,946

(1) The weighted average interest rate on these notes was 6.2% in 1996 and is based on LIBOR.
(2) The weighted average interest rate on these notes was 7.5% in 1996 and 8.4% in 1995.
(3) The weighted average interest rate on these bonds was 5.8% in 1996 and 5.9% in 1995.

(4) Includes $323 million of bonds at both December 31, 1996 and 1995, which may be tendered at various dates and/or under certain circumstances.
(5) Includes $393 million in 1995 of non-U.S. dollar-denominated borrowings. The weighted average interest rate was 5.6% in 1996 and 5.3% in 1995.
(6) Includes $60 million in 1996 and $96 million in 1995 of French franc borrowings with a weighted average interest rate of 3.2% in 1996 and 4.9% in 1995, and $218 million in 1996 and $242 million in 1995 of German mark borrowings with a weighted average interest rate of 6.7% in 1996 and 1995.
(7) The fair market value was approximately $7.3 billion and $6.6 billion at December 31, 1996 and 1995, respectively.

At December 31, 1996 and 1995, the Company, including a non-U.S. subsidiary, classified $1.1 billion and $900 million, respectively, of tenderable bonds, commercial paper and bank notes as long-term debt. The Company and this subsidiary have the intent and ability to renew or convert these obligations through 1997 and into future periods.

Total maturities of long-term debt over the next five years are: 1997-$307 million, 1998-$228 million, 1999-$861 million, 2000-$1.5 billion and 2001-$621 million.

At December 31, 1996, the Company had unused bank lines of credit of approximately $2.9 billion. The lines generally provide for interest at market rates plus a margin based on the Company's current bond rating. The principal line, which is cancelable only if the Company's bond rating drops below investment grade, provides for $750 million of credit through January 2000, and has a facility fee of .10%, which is payable quarterly. A non-U.S. subsidiary of the Company also has a $600 million line of credit that supports its U.S. dollar commercial paper program. This line matures in June 2000 and has a facility fee of .1875%, which is payable quarterly.

At December 31, 1996, notes payable classified as current liabilities included $2.3 billion of non-U.S. dollar-denominated debt with a weighted average interest rate of 4.6%.

At December 31, 1996, the Company's total outstanding debt included approximately $3.2 billion of borrowings with interest rates that fluctuate based on market conditions and the Company's credit rating.

In July 1995, 5 3/4% convertible debentures were called by the Company and converted into 5.8 million shares of common stock.

NOTE 14. FINANCIAL INSTRUMENTS

The Company has a policy of financing a portion of its investments in overseas operations with borrowings denominated in the same currency as the investment or by entering into foreign exchange contracts in tandem with U.S. borrowings. The purpose of this activity is to provide a hedge against fluctuations in exchange rates.

Non-U.S. dollar-denominated debt totaling $2.3 billion was outstanding at December 31, 1996. Also outstanding were foreign exchange contracts totaling $2.1 billion, all having maturities of less than 360 days, as follows: French francs, $779 million; British pounds, $391 million; Australian dollars, $320 million; Spanish pesetas, $173 million; German marks, $159 million; Italian lira, $106 million; Swiss francs, $87 million; and contracts totaling $108 million in three other currencies. In addition, a non-U.S. subsidiary of the Company had outstanding foreign exchange contracts totaling $280 million that were denominated in U.S. dollars. The average amount of outstanding contracts during 1996 and 1995 was $1.9 billion and $1.2 billion, respectively. Gains and losses from these contracts, which are fully offset by gains and losses from the revaluation of the net assets being hedged, are determined monthly based on published currency exchange rates and are recorded as translation adjustments in common shareholders' equity.

The Company also utilizes foreign exchange contracts to hedge certain transactions denominated in foreign currencies, primarily export sales and equipment purchased from nonresident vendors. These contracts serve to protect the Company from currency fluctuations between the transaction date and settlement. Gains and losses on these contracts, along with offsetting gains and losses resulting from the revaluations of the underlying transactions, are recognized in earnings based on published currency exchange rates. At December 31, 1996, foreign exchange contracts totaling $557 million, all having maturities of less than 12 months, were outstanding as follows: Belgian francs, $191 million; German marks, $70 million; Dutch guilders, $67 million; Australian dollars, $66 million; British pounds, $41 million; French francs, $31 million; and contracts totaling $91 million in eight different currencies. Non-U.S. subsidiaries of the Company also had contracts outstanding of $114 million that were denominated in U.S. dollars. The average amount of outstanding contracts during 1996 and 1995 was $583 million and $486 million, respectively. Net gains and losses related to contracts outstanding at December 31, 1996 and 1995, were not significant.

The Company uses interest rate swap agreements to manage the composition of its fixed and floating rate debt portfolio. During 1996, the Company entered into interest rate swap agreements maturing in 1998 and 1999 under which it will receive interest at floating rates and pay interest at fixed rates based on a principal amount of $575 million. Also, in 1994, the Company used interest rate swap agreements involving the exchange of fixed or floating rate interest payments, without changing the underlying principal amounts, related to $600 million and $400 million of long-term debt having maturities ranging from 10 to 30 years.

A non-U.S. subsidiary of the Company uses cross-currency and interest rate swap agreements to manage the composition of its fixed and floating rate debt. Under a cross-currency agreement maturing in 2002, the subsidiary will receive $150 million and will pay 203 million Australian dollars. Interest is receivable at 7 5/8% and payable at floating rates. During 1996, the subsidiary entered into an interest rate swap agreement maturing in 1999 under which it will receive interest at floating rates and pay interest at fixed rates based on a principal amount of 65 million Australian dollars. Also outstanding at December 31, 1996 and 1995 were two interest rate swap agreements maturing in 1997 and 1998 under which the subsidiary will receive interest at floating rates and pay interest at fixed rates based on principal amounts of 100 million New Zealand dollars and 100 million Australian dollars, and two agreements maturing

in 2004 under which the subsidiary will receive interest at fixed rates and pay interest at floating rates based on a combined principal amount of $250 million.

The interest payments made or received pursuant to the swap agreements are included in interest expense. The impact on earnings and the Company's net liability under these agreements was not significant.

The Company does not hold or issue financial instruments for trading purposes.

The counterparties to the Company's interest rate and cross-currency swap agreements and foreign exchange contracts consist of a number of major international financial institutions. The Company continually monitors its positions with and the credit quality of these financial institutions and does not expect nonperformance by the counterparties.

NOTE 15. CAPITAL STOCK

The authorized capital stock of the Company at December 31, 1996 and 1995 consisted of 400,000,000 shares of common stock, $1 par value; 400,000 shares of cumulative $4 nonredeemable preferred stock, without par value (stated value of $100 per share); and 8,750,000 shares of serial preferred stock, $1 par value. The serial preferred stock is issuable in one or more series by the Board of Directors without further shareholder action.

In the third quarter of 1995, the Company declared a two-for-one common stock split that was distributed to shareholders of record as of August 18, 1995. All share amounts have been retroactively adjusted for the effect of the common stock split. In addition, the quarterly dividend was raised $.04 to $.25 per common share on a split-adjusted basis.

The Company has stock rights under a Shareholder Rights Plan whereby each share of common stock has one right. Each right entitles shareholders to purchase one common share at an exercise price of $77.50. The rights will become exercisable 10 days after anyone acquires or tenders for 20% or more of the Company's common stock. If, thereafter, anyone acquires 30% or more of the common stock, or a 20% or more owner combines with the Company in a reverse merger in which the Company survives and its common stock is not changed, each right will entitle its holder to purchase Company common stock with a value of twice the $77.50 exercise price. If, following an acquisition of 20% or more of the common stock, the Company is acquired in a merger or sells 50% of its assets or earnings power, each right will entitle its holder to purchase stock of the acquiring company with a value of twice the $77.50 exercise price.

NOTE 16. RETIREMENT PLANS

The Company maintains pension plans that provide retirement benefits to substantially all employees. Employees generally are eligible to participate in the plans upon completion of one year of service and attainment of age 21.

The plans provide defined benefits based on years of credited service and either final average earnings (salaried employees), hourly job rates or specified benefit rates (hourly and union employees).

U.S. Defined Benefit Plans

The Company makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by ERISA.

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

In millions	1996	1995	1994
Service cost-benefits earned during the period	$ (61)	$ (39)	$ (54)
Interest cost on projected benefit obligation	(192)	(170)	(151)
Actual return on plan assets	372	477	7
Net amortization and deferrals	(47)	(193)	275
Net periodic pension income	$ 72	$ 75	$ 77

The actuarial assumptions used in determining net periodic pension income for the years presented were:

	1996	1995	1994
Discount rate	7.25%	8.75%	7.25%
Expected long-term return on plan assets	10.0%	10.0%	10.0%
Weighted average rate of increase in compensation levels	4.25%	4.75%	4.0%

The discount rates and the rates of increase in future compensation levels used to determine the projected benefit obligations at December 31, 1996 were 7.5% and 4.5%, respectively, and at December 31, 1995 were 7.25% and 4.25%, respectively.

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

In millions at December 31	1996	1995
Actuarial present value of benefit obligations		
Vested benefits	$ 2,420	$ 2,080
Accumulated benefit obligation	$ 2,558	$ 2,203
Projected benefit obligation(1)	$ 2,745	$ 2,376
Plan assets at fair value	3,355	2,896
Plan assets in excess of projected benefit obligation	610	520
Unrecognized net loss	92	170
Balance of unrecorded transition asset	(55)	(82)
Other	42	44
Prepaid pension cost	$ 689	$ 652

(1) Includes nonqualified unfunded plans with projected benefit obligations of approximately $76 million and $45 million at December 31, 1996 and 1995, respectively.

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

In millions at December 31	1996	1995
Cash reserves	$ 44	$ 45
Fixed income securities	1,159	1,003
Diversified equities	1,449	1,192
International Paper common stock	422	394
Real estate	117	113
Other	164	149
Total plan assets	$3,355	$2,896

Non-U.S. Defined Benefit Plans

Generally, the Company's non-U.S. pension plans are funded using the projected benefit as a target, except in certain countries where funding of benefit plans is not required. Net periodic pension expense for the Company's non-U.S. pension plans was immaterial for 1996, 1995 and 1994.

The following table presents the funded status of the Company's non-U.S. pension plans and the amounts reflected in the accompanying consolidated balance sheet. Plan assets are composed principally of common stocks and fixed income securities.

In millions at December 31	1996	1995
Actuarial present value of benefit obligations		
Vested benefits	$ 367	$ 338
Accumulated benefit obligation	$ 382	$ 365
Projected benefit obligation (1)	$ 473	$ 446
Plan assets at fair value	511	477
Plan assets in excess of projected benefit obligation	38	31
Unrecognized net gain	(12)	(21)
Balance of unrecorded transition asset	(34)	(35)
Other	4	5
Pension liability	$ (4)	$ (20)

(1) The weighted average discount rate and the weighted average rate of compensation increase used to measure the projected benefit obligation were 7.08% (6.93% in 1995) and 4.99% (4.65% in 1995), respectively.

Other Plans

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

As determined by the provisions of each plan, the Company matches the employees' basic voluntary contributions. Company matching contributions to the plans were approximately $42 million, $38 million and $36 million for the plan years ending in 1996, 1995 and 1994, respectively. The net assets of these plans approximated $1.8 billion as of the 1996 plan year-end.

NOTE 17. POSTRETIREMENT BENEFITS

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

The components of postretirement benefit expense in 1996, 1995 and 1994 were as follows:

In millions	1996	1995	1994
Service cost-benefits earned during the period	$ 7	$ 6	$ 8
Interest cost on accumulated post-retirement benefit obligation	25	26	23
Net amortization of plan amendments	(17)	(18)	(16)
Net postretirement benefit cost	$ 15	$ 14	$ 15

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

In millions at December 31	1996	1995
Retirees	$ 251	$ 250
Fully eligible active plan participants	22	17
Other active plan participants	85	76
Total accumulated postretirement benefit obligation	358	343
Unrecognized net loss	(30)	(57)
Unrecognized effect of plan amendments	58	78
Accrued postretirement benefit obligation	$ 386	$ 364

Future benefit costs were estimated assuming medical costs would increase at a 9.5% annual rate, decreasing to a 5% annual growth rate ratably over the next seven years and then remaining at a 5% annual growth rate thereafter. A 1% increase in this annual trend rate would have increased the accumulated postretirement benefit obligation at December 31, 1996 by $24 million, with an immaterial effect on 1996 postretirement benefit expense. The weighted average discount rate used to estimate the accumulated postretirement benefit obligation at December 31, 1996 was 7.5% compared with 7.25% at December 31, 1995.

NOTE 18. INCENTIVE PLANS

The Company has a Long-Term Incentive Compensation Plan that includes a Stock Option Plan, a Restricted Performance Share Plan, and an Executive Continuity Award Plan, administered by a committee of nonemployee members of the Board of Directors who are not eligible for awards. The plan allows stock appreciation rights to be awarded, although none were awarded in 1996, 1995 or 1994.

The Company applies the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), which was adopted in 1996. Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock-based compensation plans been determined consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per common share would have been reduced to the pro forma amounts indicated below:

In millions, except per share amounts	1996	1995	1994
Net Earnings			
As reported	$ 303	$1,153	$ 357
Pro forma	291	1,143	351
Earnings Per Common Share			
As reported	$1.04	$ 4.50	$1.43
Pro forma	1.00	4.46	1.41

The effect on 1996, 1995 and 1994 pro forma net earnings and earnings per common share of expensing the estimated fair value of stock options is not necessarily representative of the effect on reported earnings for future years due to the vesting period of stock options and the potential for issuance of additional stock options in future years.

Stock Option Plan

Initial stock options are normally granted in January of each year. The option price is the market price of the stock at the date of grant. Options are immediately exercisable under the plan; however, the underlying shares cannot be sold and carry profit forfeiture provisions during the initial four years following grant. Upon exercise of an option, a replacement option may be granted with the exercise price equal to the current market price and with a term extending to the expiration date of the original option.

For purposes of the pro forma disclosure above, the fair value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1996, 1995 and 1994, respectively.

	1996	1995	1994
Initial Options(1)			
Risk-free interest rate	5.45%	7.80%	4.88%
Price volatility	22.18%	22.15%	21.70%
Dividend yield	2.72%	2.44%	2.61%
Expected term in years	4.74	4.74	4.74
Replacement Options(2)			
Risk-free interest rate	6.38%	5.91%	6.80%
Price volatility	22.18%	22.15%	21.70%
Dividend yield	2.68%	2.34%	2.45%
Expected term in years	2.97	2.97	2.97

(1) The average fair values of initial option grants during 1996, 1995 and 1994 were $8.37, $10.33 and $7.52, respectively.
(2) The average fair values of replacement option grants during 1996, 1995 and 1994 were $6.82, $7.23 and $6.72, respectively.

A summary of the status of the Stock Option Plan as of December 31, 1996, 1995 and 1994, and changes during the years ended on those dates is presented below:

	Options(1)	Weighted Average Exercise Price
Outstanding at 1/1/94	7,481,026	$29.95
Granted	2,706,540	36.99
Exercised	(1,559,030)	27.72
Forfeited	(231,668)	33.82
Outstanding at 12/31/94	8,396,868	32.41
Granted	3,196,311	40.03
Exercised	(2,069,022)	30.09
Forfeited	(262,044)	35.64
Outstanding at 12/31/95	9,262,113	35.44
Granted(2)	4,234,695	35.42
Exercised	(2,091,942)	30.39
Forfeited	(460,321)	36.89
Outstanding at 12/31/96	10,944,545	36.53

(1) This table does not include Executive Continuity Award tandem options described below. No fair value is assigned to these options under SFAS No.
123. The tandem restricted shares accompanying these options are expensed over their vesting periods.
(2) At acquisition, outstanding Federal Paper Board options that were not paid in cash were converted to 797,776 options of International Paper with a fair value of $20.58 per option. The fair value for all acquired options was included in the purchase price that has been allocated to acquired assets and liabilities.

The following table summarizes information about stock options outstanding at December 31, 1996:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Number Outstanding at 12/31/96	Weighted Average Remaining Life	Weighted Average Exercise Price
$17-$34	2,047,036	4.4	$26.85
$34-$37	2,566,018	5.3	$35.79
$37-$39	2,210,578	5.9	$38.52
$39-$40	2,165,362	7.1	$39.20
$40-$46	1,955,551	3.1	$42.43

Restricted Performance Share Plan

Under the Restricted Performance Share Plan, contingent awards of Company common stock are granted by the committee. Awards are earned if the Company's financial performance over a five-year period meets or exceeds that of other forest products companies using standards determined by the committee.

The following summarizes the activity of the Restricted Performance Share Plan for the three years ending December 31, 1996:

	Shares
Outstanding at 1/1/94	650,192
Granted	261,207
Issued	(183,719)
Forfeited	(37,668)
Outstanding at 12/31/94	690,012
Granted	360,701
Issued	(211,648)
Forfeited	(28,101)
Outstanding at 12/31/95	810,964
Granted	424,264
Issued	(190,660)
Forfeited	(85,178)
Outstanding at 12/31/96	959,390

Executive Continuity Award Plan

The Executive Continuity Award Plan provides for the granting of tandem awards of restricted stock and/or nonqualified stock options to key executives. Grants are restricted and awards conditioned on attainment of specified age and years of service requirements. Exercise of a tandem stock option results in the cancellation of the related restricted shares.

The following summarizes the activity of the Executive Continuity Award Plan for the three years ending December 31, 1996:

	Shares
Outstanding at 1/1/94	389,000
Granted	116,000
Issued	(22,000)
Forfeited	(6,000)
Outstanding at 12/31/94	477,000
Granted	28,000
Forfeited(1)	(26,000)
Outstanding at 12/31/95	479,000
Granted	136,650
Forfeited(1)	(132,000)
Outstanding at 12/31/96	483,650

(1) Includes restricted shares canceled when tandem stock options were exercised. In 1996 and 1995, 400,000 and 120,000 tandem stock options were exercised, respectively.

At December 31, 1996 and 1995, a total of 7.9 million and 10.8 million shares, respectively, were available for grant under the Long-Term Incentive Compensation Plan.

The compensation cost that has been charged to earnings for the performance-based plans was $13 million, $14 million and $9 million for 1996, 1995 and 1994, respectively.

NOTE 19. START-UP COSTS

Effective January 1, 1994, the Company changed its method of accounting for start-up costs on major projects to expense these costs as incurred. Prior to 1994, the Company capitalized these costs and amortized them over a five-year period. This change was made to increase the focus on controlling costs associated with facility start-ups.

The Company restated 1994 first-quarter results to record a pre-tax charge of $125 million ($75 million after taxes or $.30 per share) as the cumulative effect of an accounting change. This change also decreased 1994 total costs and expenses by $17 million ($10 million after taxes or $.04 per share).

ELEVEN-YEAR FINANCIAL SUMMARY

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND STOCK PRICES	1996	1995	1994
RESULTS OF OPERATIONS			
Net sales	$20,143	$19,797	$ 14,966
Costs and expenses, excluding interest	19,403	17,276	13,902
Earnings before income taxes, minority interest, extraordinary item and cumulative effect of accounting changes	802(1)	2,028	715(2)
Minority interest expense, net of taxes	169(1)	156	47
Extraordinary item			
Cumulative effect of accounting changes			(75)
Net earnings	303(1)	1,153	357(2)
Earnings applicable to common shares	303(1)	1,153	357(2)
FINANCIAL POSITION			
Working capital	$ 104	$ 1,010	$ 796
Plants, properties and equipment, net	13,217	10,997	9,139
Forestlands	3,342	2,803	802
Total assets	28,252	23,977	17,836
Long-term debt	6,691	5,946	4,464
Common shareholders' equity	9,344	7,797	6,514
PER SHARE OF COMMON STOCK(8)			
Earnings before extraordinary item and cumulative effect of accounting changes	$ 1.04(1)	$ 4.50	$ 1.73(2)
Extraordinary item			
Cumulative effect of accounting changes			(.30)
Earnings	1.04(1)	4.50	1.43(2)
Cash dividends	1.00	.92	.84
Common shareholders' equity	31.13	29.87	25.87
COMMON STOCK PRICES(8)			
High	44 5/8	45 3/4	40 1/4
Low	35 5/8	34 1/8	30 3/8
Year-end	40 1/2	37 7/8	37 3/4
FINANCIAL RATIOS			
Current ratio	1.0	1.2	1.2
Total debt to capital ratio	38.9	38.5	41.2
Return on equity	3.4(1),(9)	16.1	5.6(2),(9)
Return on capital employed	3.7(1),(9)	9.2	4.1(2),(9)
CAPITAL EXPENDITURES	$ 1,394	$ 1,518	$ 1,114
NUMBER OF EMPLOYEES	87,000	81,500	70,000

FINANCIAL GLOSSARY

Current ratio--current assets divided by current liabilities.

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

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

Return on capital employed--net earnings plus after-tax interest expense, provision for deferred income taxes and minority interest expense divided by an average of total assets minus accounts payable and accrued liabilities.

1993	1992	1991	1990	1989	1988	1987	1986
$ 13,685	$ 13,598	$12,703	$12,960	$11,378	$ 9,587	$ 7,800	$ 5,540
12,837	13,125(4)	11,695(5)	11,695(6)	9,739	8,199	6,930	5,010
538	226(4)	693(5)	988(6)	1,434	1,223	703	474
36	15	42	33	26	22	21	20
	(6)						
	(50)	(215)					
289(3)	86(4)	184(5)	569(6)	864	754	407	305
289(3)	86(4)	184(5)	569(6)	845	733	387	284
$ 472	$ (165)(7)	$ 404	$ 784	$ 366	$ 781	$ 657	$ 296
8,872	8,884	7,848	7,287	6,238	5,456	5,125	4,788
786	759	743	751	764	772	780	783
16,631	16,516	14,941	13,669	11,582	9,462	8,710	7,848
3,601	3,096	3,351	3,096	2,324	1,853	1,937	1,764
6,225	6,189	5,739	5,632	5,147	4,557	4,052	3,664
$ 1.17(3)	$ .58(4)	$ 1.80(5)	$ 2.61(6)	$ 3.86	$ 3.28	$ 1.84	$ 1.45
	(.02)						
	(.21)	(.97)					
1.17(3)	.35(4)	.83(5)	2.61(6)	3.86	3.28	1.84	1.45
.84	.84	.84	.84	.77	.64	.60	.60
25.12	25.23	25.52	25.67	23.67	20.57	18.18	17.52
35	39 1/4	39 1/8	29 7/8	29 3/8	24 3/4	28 7/8	20
28 3/8	29 1/4	25 1/4	21 3/8	22 5/8	18 1/4	13 1/2	12 1/8
33 7/8	33 3/8	35 3/8	26 3/4	28 1/4	23 1/4	21 1/8	18 3/4
1.1	.96(7)	1.1	1.2	1.1	1.5	1.4	1.2
38.5	38.0	39.1	36.1	33.9	25.8	31.6	31.2
4.7(3),(9)	1.4(4),(9)	3.2(5)	10.5(6)	17.8	17.0	10.0	8.3
4.0(3),(9)	1.2(4),(9)	3.7(5)	7.5(6)	12.3	13.6	9.9	7.8
$ 954	$ 1,368	$ 1,197	$ 1,267	$ 887	$ 645	$ 603	$ 576
72,500	73,000	70,500	69,000	63,500	55,500	45,500	44,000

(1) Includes a pre-tax restructuring and asset impairment charge of $515 million ($362 million after taxes or $1.35 per share), a $592 million pre-tax gain on the sale of a partnership interest ($336 million after taxes and minority interest expense or $1.25 per share) and a $165 million pre-tax charge ($105 million after taxes or $.35 per share) for the write-down of the investment in Scitex.
(2) Includes $17 million ($10 million after taxes or $.04 per share) of additional earnings related to the change in accounting for start-up costs.
(3) Includes $25 million ($.10 per share) of additional income tax expense to revalue deferred tax balances to reflect the increase in the U.S. statutory federal income tax rate.
(4) Includes restructuring and other charges totaling $398 million ($263 million after taxes or $1.08 per share).
(5) Includes a $60 million pre-tax restructuring charge ($37 million after taxes or $.17 per share) and additional expenses related to the adoption of SFAS No. 106 of $25 million ($16 million after taxes or $.07 per share).
(6) Includes a $212 million pre-tax restructuring charge ($137 million after taxes or $.63 per share).
(7) Reflects increase in short-term versus long-term borrowings due to favorable interest rates.
(8) Per share data and common stock prices have been adjusted to reflect two-for-one stock splits in September 1995 and May 1987.
(9) Return on equity was 4.8% and return on capital employed was 4.0% in 1996 before the restructuring and asset impairment charge, the gain on sale of the partnership interest and the write-down of the investment in Scitex. Return on equity was 6.7% and return on capital employed was 4.9% in 1994 before the accounting change. Return on equity was 5.1% and return on capital employed was 4.0% in 1993 before the additional income tax expense. Return on equity was 6.3% and return on capital employed was 4.5% in 1992 before the accounting change, extraordinary item, and restructuring and other charges.

INTERIM FINANCIAL RESULTS (UNAUDITED)

IN MILLIONS, EXCEPT PER SHARE AMOUNTS AND STOCK PRICES	QUARTER				
	FIRST	SECOND	THIRD	FOURTH	YEAR
1996					
Net Sales	$4,798	$5,093	$5,108	$ 5,144	$20,143
Gross Margin(1)	1,242	1,322	1,348	1,330	5,242
Earnings Before Income Taxes and Minority Interest	336(2)	217	227	22(3)	802(2),(3)
Net Earnings (Loss)	98(2)	99	111	(5)(3)	303(2),(3)
Per Share of Common Stock					
Earnings (Loss)	$ .36(2)	$ .33	$ .37	$ (.02)(3)	$1.04(2),(3)
Dividends	.25	.25	.25	.25	1.00
Common Stock Prices					
High	41 1/2	43 3/8	44 5/8	44	44 5/8
Low	35 5/8	36 7/8	36 3/4	38 3/4	35 5/8
1995					
Net Sales	$4,492	$5,084	$5,145	$ 5,076	$19,797
Gross Margin(1)	1,268	1,552	1,579	1,502	5,901
Earnings Before Income Taxes and Minority Interest	406	554	591	477	2,028
Net Earnings	246	316	328	263	1,153
Per Share of Common Stock(4)					
Earnings	$ .97	$ 1.25	$ 1.27	$ 1.01	$ 4.50
Dividends	.21	.21	.25	.25	.92
Common Stock Prices(4)					
High	39 7/8	43 3/8	45 3/4	42	45 3/4
Low	35 1/8	36	40 1/4	34 1/8	34 1/8

(1) Gross margin represents net sales less cost of products sold.
(2) Includes a pre-tax restructuring and asset impairment charge of $515 million ($362 million after taxes or $1.35 per share) and a $592 million pre-tax gain on the sale of a partnership interest ($336 million after taxes and minority interest expense or $1.25 per share).
(3) Includes a $165 million pre-tax charge ($105 million after taxes or $.35 per share) for the write-down of the investment in Scitex.
(4) Per share amounts and common stock prices adjusted for the two-for-one stock split in September 1995.

BOARD OF DIRECTORS

"We appreciate the ongoing leadership of our distinguished Board of Directors, who provide International Paper with sound counsel, a broad perspective and judgment based on extensive experience."

[Photograph -- Appendix B No. 65]

STANDING IN THE BACK ROW FROM LEFT TO RIGHT: ROGER B. SMITH, JOHN A. GEORGES, PATRICK F. NOONAN, ROBERT J. EATON, THOMAS C. GRAHAM, JOHN R. KENNEDY, CHARLES R. SHOEMATE. SEATED IN THE MIDDLE ROW FROM LEFT TO RIGHT: C. WESLEY SMITH, EDMUND T. PRATT, JR., ARTHUR G. HANSEN. SEATED IN THE FRONT ROW FROM LEFT TO RIGHT: STANLEY C. GAULT, WILLARD C. BUTCHER, JANE C. PFEIFFER, JOHN T. DILLON, DONALD F. MCHENRY.

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(5) Nominating Committee
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(7) Environment, Health and Technology Committee
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Specialty Industrial Papers

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Senior Vice President
Human Resources

THOMAS E. COSTELLO
Senior Vice President
Distribution Business

MARIANNE M. PARRS
Senior Vice President and

Chief Financial Officer

RICHARD B. PHILLIPS
Senior Vice President
Technology

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SENIOR MANAGEMENT
(CONTINUED)

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Poland

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WILLIAM P. CRAWFORD
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Chief Executive Officer
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Corporate Communications

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Auditor

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Vice President and
Corporate Secretary

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Liquid Packaging

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Zanders

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Vice President
Manufacturing
Printing Papers

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Vice President, Sales
Printing Papers

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Resources Company

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Vice President
Containerboard and Kraft

RICHARD M. SMITH
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President
Masonite

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Vice President
Government Relations

TOBIN J. TREICHEL
Vice President
Tax

CAROL S. TUTUNDGY
Vice President
Investor Relations

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

International Paper
Two Manhattanville Road
Purchase, NY 10577
914-397-1500

ANNUAL MEETING

The next annual meeting of shareholders will be held at 9:00 a.m., Thursday, May 8, 1997, at the Swissotel, 323 E. Wacker Drive, Chicago, IL.

TRANSFER AGENT

For services regarding your account such as change of address, lost certificates or dividend checks, change in registered ownership, or the dividend reinvestment program, write or call:

ChaseMellon Shareholder Services L.L.C.
85 Challenger Road
Overpeck Centre
Ridgefield Park, NJ 07660
800-678-8715

STOCK EXCHANGE LISTINGS

Common shares (symbol: IP) are traded on the following exchanges: New York, Basel, Geneva, Lausanne, Zurich and Amsterdam. International Paper options are traded on the Chicago Board of Options Exchange.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

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

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP
1345 Avenue of the Americas
New York, NY 10105

REPORTS AND PUBLICATIONS

Additional copies of this annual report, the most recent environment, health and safety annual report, SEC filings and other publications are available by calling 914-397-1522 or writing to the investor relations department at corporate headquarters. Additional information is also available on our website
- - -http://www.ipaper.com

INVESTOR RELATIONS

Investors desiring further information about International Paper should contact the investor relations department at corporate headquarters, 914-397-1625.

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Strathmore Elements, 80 lb. text, bright white solids, a recycled paper; pages 41-60: Hammermill Accent Opaque Recycled , 70 lb. text, smooth, a recycled paper.

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THIS 1996 ANNUAL REPORT TO SHAREHOLDERS CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS CONCERNING PROJECTED MODEST IMPROVEMENT IN EARNINGS AT INTERNATIONAL PAPER. ACTUAL RESULTS MAY DIFFER BASED PRIMARILY ON OVERALL DEMAND AND WHETHER PRICING INITIATIVES FOR VARIOUS PAPER AND PACKAGING PRODUCTS CAN BE REALIZED IN 1997 AND ANTICIPATED SAVINGS FROM RESTRUCTURING ARE ACHIEVED.

LIST OF EMPLOYEE TEAMS

COVER: CONTAINERBOARD SALES IN LATIN AMERICA
DOLE FRESH FRUIT COMPANY
BANANA PLANTATION
NEAR LA CEIBA, HONDURAS

Guillermo Botero* - Production Manager
Sariago Arbelaez - International Sales
Elisa Isabel Herrera* - Production
Carlos Ponce Posas* - General Manager
Dinora Hiza* - Quality Control
Iris Posas de Machigua* - Administration

***Employee of Dole Fresh Fruit Company**

PAGE 3: ACCOLADE DEVELOPMENT TEAM
ANDROSCROGGIN MILL
JAY, MAINE

Mark Bayer - Technical Services
Jon Edmans - Product Performance
Michael Evans - Research
Alan Stevens - Graphic Arts Evaluation and Development Joe Duffy - Quality
Bill Roepke - Project Management
Tom Jeffrey - Market Development
Tom Moore - Product Development

PAGE 4: BLEACHED BOARD SALES AND MARKETING TEAM
AUGUSTA, MILL
AUGUSTA, GEORGIA

Ken Kreig - Sales and Marketing
Allan Scott - Customer Service
Bob O'Keefe - Technical Services
Denton Stargel - Customer Service
Angela Medico - Domestic Sales
Bill Donahue - International Sales
Darryl Flanner - Marketing

PAGES 6-7: FOREST MANAGEMENT TEAM
SOUTHLANDS EXPERIMENT FOREST
BAINBRIDGE, GEORGIA

Jeremy Piorier - Wildlife Biology
Craig Hedman - Forest Ecology
Sam Stubbs - Forestry
Paul Durfield - Forestry
Neeti Bathala - Research
Sharon Haines - Natural Resources

PAGE 8: SAFETY TEAM MEMBERS
MASONITE
TOWANDA, PENNSYLVANIA

Leslie Woznicki - Ergonomics Team
Joe Coyle - Lift Truck Task Team
Lucy Snyder - Occupational Health Nurse
Ken Carle - Behavior Observation Team
Tim Crawford - Safety Captain

PAGE 9: GATORPRINT DEVELOPMENT TEAM
ERIE RESEARCH CENTER
ERIE, PENNSYLVANIA

Rick Williams - Research
John Knopp - Veratec
Tom Arnson - Research
Kathy Halligan - Printing Papers
Gary Knauf - Converting Technical Services Donnie Hathcock - McKinney Coated Products David Boone - Specialty Papers
Bob Dillon - Specialty Papers

PAGES 10-11: DISTRIBUTION CUSTOMER SERVICE TEAM
RESOURCENET INTERNATIONAL
DALLAS, TEXAS

April Lyon - Sales
Keith Washington - Dispatch
Sheila Bullard - Customer Servicve
Billy Walls - Warehouse
Greg Launza - Shipping
Ted Webb - Warehouse

PAGE 13: POLISH SALES AND MARKETING TEAM
THE NATIONAL THEATRE
WARSAW, POLAND

Zoltan Mate - Business Development
Barbara Lendzion - Sales
Grzegorz Ignatowski - Distribution
Krzysztof Jakubowski - Product Management Agnieska Pochwalska-Piwko - Marketing
Andrzej Chrzanowski - Publisher of School Textbooks David Bailey - President, IP Poland
Irena Waszak - Export Sales
The Dance Ensemble of Agricultural College "Promni"

APPENDIX A

INTERNATIONAL PAPER
EXPLANATION OF CHARTS IN ANNUAL REPORT

1. NET SALES (PAGE 1) Bar chart of NET SALES for the years 1994 through 1996, in billions of dollars. Data points as follows:

1994	1995	1996
15	19.8	20.1

2. NET EARNINGS (PAGE 1) Bar chart of NET EARNINGS for the years 1994 through 1996, in millions of dollars. Charts contain color keys for the years 1994 and 1996 to highlight the following unusual or special items. In 1994, change in accounting for start-up costs. In 1996, special items consisting of restructuring and asset impairment charges and the gain on the sale of a partnership interest. Data points as follows:

	1994	1995	1996
NET EARNINGS BEFORE UNUSUAL ITEMS	432	1,153	434
Special items			(131)
Change in accounting for start-up costs	(75)		
NET EARNINGS	357	1,153	303

3. EARNINGS PER SHARE (PAGE 1) Bar chart of EARNINGS PER SHARE for the years 1994 through 1996, in dollars. Charts contain color keys for the years 1994 and 1996 to highlight the following unusual or special items: In 1994, change in accounting for start-up costs. In 1996, special items consisting of restructuring and asset impairment charges and the gain on the sale of a partnership interest. Data points as follows:

	1994	1995	1996
EARNINGS PER SHARE BEFORE UNUSUAL ITEMS	1.73	4.50	1.49
Special items			(0.45)
Change in accounting for start-up costs	(0.30)		
EARNINGS PER SHARE	1.43	4.50	1.04

4. RETURN ON EQUITY (PAGE 1) Bar chart of RETURN OF EQUITY for the years 1994 through 1996, in percentages. Charts contain color keys for the years 1994 and 1996 to highlight the following unusual or special items: In 1994, change in accounting for start-up costs. In 1996, special items consisting of restructuring and asset impairment charges and the gain on the sale of a partnership interest. Data points as follows:

	1994	1995	1996
RETURN ON EQUITY BEFORE UNUSUAL ITEMS	6.7	16.1	4.8
Special items			(1.4)
Change in accounting for start-up costs	(1.1)		
RETURN ON EQUITY	5.6	16.1	3.4

5,6. PRINTING PAPERS-NET SALES AND OPERATING PROFIT (PAGES 18-19)
Bar chart of NET SALES and OPERATING PROFIT for the segment for the years 1994 through 1996, in millions of dollars. NET SALES chart contains color keys to show breakdown of U.S. and non-U.S. sales. OPERATING PROFIT chart contains color keys for 1996 to highlight a special item consisting of a restructuring and asset impairment charge.

Data points for NET SALES as follows:

	1994	1995	1996
U.S.	3,028	4,118	3,841
Non-U.S.	1,372	1,972	1,799
NET SALES	4,400	6,090	5,640

Data points for OPERATING PROFIT as follows:

	1994	1995	1996
OPERATING PROFIT BEFORE SPECIAL ITEM	20	1,093	220
Special item			(35)
OPERATING PROFIT	20	1,093	185

PIE CHARTS
7,8. Above each pie chart is a title indicating what the chart illustrates. Each pie's slice is a different color, and has the name of the business the pie slice represents, and the related percentage.

PERCENT

Printing Papers Sales by Business (Page 18)	
Business Papers	53%
Coated Papers	31%
Pulp	16%
Printing Papers Sales to Geographic Areas (Page 19)	
U.S.	57%
International	43%

9,10. PACKAGING-NET SALES AND OPERATING PROFIT (PAGES 22-23)
Bar chart of NET SALES and OPERATING PROFIT for the segment for the years 1994 through 1996, in millions of dollars. NET SALES chart contains color keys to show breakdown of U.S. and non-U.S. sales. OPERATING PROFIT chart contains color keys for 1996 to highlight a special item consisting of a restructuring and asset impairment charge.

Data points for NET SALES as follows:

	1994	1995	1996
U.S.	2,579	3,064	3,374
Non-U.S.	796	1,411	1,571
NET SALES	3,375	4,475	4,945

Data points for OPERATING PROFIT as follows:

	1994	1995	1996
OPERATING PROFIT BEFORE SPECIAL ITEM	293	741	463
Special item			(42)
OPERATING PROFIT	293	741	421

11,12. PIE CHARTS

Above each pie chart is a title indicating what the chart illustrates. Each pie's slice is a different color, and has the name of the business the pie slice represents, and the related percentage.

PERCENT

Packaging Sales by Business (Page 22)	
Consumer Packaging	43%
Industrial Packaging	57%
Packaging Sales to Geographic Areas (Page 23)	
U.S.	58%
International	42%

13,14. DISTRIBUTION-NET SALES AND OPERATING PROFIT (PAGES 26-27)

Bar charts of NET SALES and OPERATING PROFIT for the segment for the years 1994 through 1996, in millions of dollars. NET SALES chart contains color keys to show breakdown of U.S. and non-U.S. sales.

Data points for NET SALES as follows:

	1994	1995	1996
U.S.	3,145	4,555	4,190
Non-U.S.	325	485	485
NET SALES	3,470	5,040	4,675

Data points for OPERATING PROFIT as follows:

	1994	1995	1996
OPERATING PROFIT	74	106	109

15,16. PIE CHARTS

Above each pie chart is a title indicating what the chart illustrates. Each pie's slice is a different color, and has the name of the business the pie slice represents, and the related percentage.

PERCENT

Distribution Sales by Business (Page 26)	
International	10%
ResourceNet International	90%
Distribution Sales by Major Product (Page 27)	
Industrial & Graphic Arts	30%
Paper Products	70%

17,18. SPECIALTY PRODUCTS-NET SALES AND OPERATING PROFIT (PAGES 30-31)
Bar charts of NET SALES and OPERATING PROFIT for the segment for the years 1994 through 1996, in millions of dollars. NET SALES chart contains color keys to show breakdown of U.S. and non-U.S. sales. OPERATING PROFIT chart contains color keys for 1996 to highlight a special item consisting of a restructuring and asset impairment charge.

Data points for NET SALES as follows:

	1994	1995	1996
U.S.	1,821	1,914	1,973
Non-U.S.	769	1,346	1,502
NET SALES	2,590	3,260	3,475

Data points for OPERATING PROFIT as follows:

	1994	1995	1996
OPERATING PROFIT BEFORE SPECIAL ITEM	268	207	319
Special item			(370)
OPERATING PROFIT	268	207	(51)

19,20. PIE CHARTS
Above each pie chart is a title indicating what the chart illustrates. Each pie's slice is a different color, and has the name of the business the pie slice represents, and the related percentage.

PERCENT

Specialty Products Sales by Business (Page 30)	
Specialty Panels	28%
Imaging Products	20%
Chemicals & Petroleum	16%
Specialty Papers	16%
Tissue	12%
Nonwovens	8%
Specialty Products Sales to Geographic Areas (Page 31)	
North America	51%
International	49%

21,22. FOREST PRODUCTS-NET SALES AND OPERATING PROFIT (PAGES 34-35)
Bar charts of NET SALES and OPERATING PROFIT for the segment for the years 1994 through 1996, in millions of dollars. NET SALES chart contains color keys to show breakdown of U.S. and non-U.S. sales. OPERATING PROFIT chart contains color keys for 1996 to highlight special items consisting of restructuring and asset impairment charges and the gain on the sale of a partnership interest.

Data points for NET SALES as follows:

	1994	1995	1996
U.S.	1,595	1,442	1,635
Non-U.S.	120	698	1,030
NET SALES	1,715	2,140	2,665

Data points for OPERATING PROFIT as follows:

	1994	1995	1996
OPERATING PROFIT BEFORE SPECIAL ITEMS	418	388	390
Special items			535
OPERATING PROFIT	418	388	925

23,24. PIE CHARTS

Above each pie chart is a title indicating what the chart illustrates. Each pie's slice is a different color, and has the name of the business the pie slice represents, and the related percentage.

PERCENT

Forest Products Sales by Business (Page 34)	
Forestlands	28%
Wood Products	72%
Forest Products Sales to Geographic Areas (Page 35)	
U.S.	58%
International	42%

25. NET SALES (PAGE 36) Bar chart of NET SALES for the years 1994 through 1996, in billions of dollars. Data points as follows:

1994	1995	1996
15	19.8	20.1

26. CASH FLOW FROM OPERATIONS (PAGE 37) Bar charts of CASH FLOW FROM OPERATIONS for the years 1994 through 1996, in billions of dollars. Data points as follows:

1994	1995	1996
1,243	2,248	1,739

27. TOTAL DEBT TO CAPITAL RATIO (PAGE 38) Bar charts of TOTAL DEBT TO CAPITAL RATIO for the years 1994 through 1996, in percentages. Data points as follows:

1994	1995	1996
41.2	38.5	38.9

APPENDIX B

PHOTOGRAPHS AND ILLUSTRATIONS FOR 1996 ANNUAL REPORT:

1. Page 2: A photograph of John T. Dillon, Chairman and Chief Executive Officer.

2. Page 3: A full page photo of stacks of ACCOLADE paper rolls and eight employees representing the team that developed the new grade. Taken at the Androscoggin mill in Jay, Maine.

3. Page 4: A full page photo of the dry end of the paper machine at the Augusta mill in Augusta, Georgia. Standing in front of the machine are seven employees from the marketing and sales team.

4. Pages 6-7: A photo of six forestry employees in a stand of longleaf pine trees at our Southlands Experiment Forest in Bainbridge, Georgia.

5. Page 8: A photo of 5 employees standing amongst stacks of product at our Masonite mill in Towanda, Pennsylvania. The product shown is siding wrapped in blue plastic with the Masonite logo printed on it.

6. Page 9: A photo of 8 employees taken at our research center in Erie, Pennsylvania. One employee is in the center of the photo, sitting on a large sheet of paper, the other 7 employees are holding onto the sheet. The name of the product, GATORPRINT, appears at the top, center of the photograph, along with a photo of an envelope (the end use application).

7. Pages 10-11: A photo of 6 employees in the warehouse at ResourceNet International in Dallas, Texas. Each employee is standing on a forklift, 3 are at ground level, and 3 are elevated. In the background are racks of paper products.

8. Page 13: A full page photo of 16 people taken at the National Theatre in Warsaw, Poland. Seven of the people are employees of International Paper - Poland, 1 person is a customer, the other 8 are local folk dancers dressed in traditional costume.

9. Page 16: A photo of a book "Time for School Little Dinosaur," printed on our bristol paper.

10. Page 16: A photo of a ream of DUO copier paper from our Tait mill in Scotland.

11. Page 16: A photo of two reams of HAMMERMILL copy paper.

12. Page 16: A photo of a spool of yellow thread, depicting our pulp business.

13. Page 16: A photo of three packages of Kwidzyn papers - POLSPEED (red), POLCOPY (green) and POLLUX (purple).

14. Page 16: A photo of a customer holding a JCPenney catalog.

15. Page 17: A photo of "Romer's Restaurant Report '96", printed on Zanders paper.

16. Page 17: A photo of three SPRINGHILL advertising brochures.

17. Page 17: A photo of two magazines, Forbes and Parents.

18. Page 17: A photo of four different packages of Hammermill papers for various types of printers (ink jet and laser).

19. Page 17: A photo of a ream of STRATHMORE paper.

20. Page 17: A photo of a ream of REYPRINT reprographic paper.

21. Page 20: A photo of a package of "Modelina" modeling paste (in Polish).

22. Page 20: A photo of a "Seattle's Best Coffee" cup, filled with coffee.

23. Page 20: A photo of a Heinz tomato ketchup display made from corrugated, containing 20 Heinz ketchup bottles (28 oz. size).

24. Page 20: A photo of an aseptic carton by "Elle & Vire" containing creme (in french).

25. Page 20: A photo of a stack of three "Breezer by Bacardi" corrugated boxes.

26. Page 21: A photo of a SPOUTPAK milk carton by "Alta Dena."

27. Page 21: A photo of "New Zealand Draught" beer, 12-pack carton.

28. Page 21: A photo of a "Ragu" chunky gardenstyle pasta sauce glass jar.

29. Page 21: A photo of a retail bag we produce for Ace Hardware.

30. Page 21: A photo of a folding carton we produce for Keebler Town House crackers.

31. Page 21: A photo of a corrugated box for "Le Vigneron Catalan" (in french).

32. Page 21: A photo of a customer holding a Microsoft Office '97 box.

33. Page 24: A photo of a box containing Colorlok precision printing blankets.

34. Page 24: A photo of a ream of REPLICOPY copy paper.

35. Page 24: A photo of ream of paper from Carter Holt Harvey in New Zealand.

36. Page 24: A photo of an "array" of products, including tape, a diskette, steno pad, paper and a pen.

37. Page 24: A photo of a customer holding a ream of REPLICOPY paper.

38. Page 25: A photo of a box of TUFFLEX tape with a roll of tape on top.

39. Page 25: A photo of a ResourceNet International truck.

40. Page 25: A photo of two reams of paper, ADAGIO from Aussedat Rey and POLCOPY from Kwidzyn.

41. Page 25: A photo of a bottle of heavy duty glass cleaner from Regency.

42. Page 25: A photo of a computer with the ResourceNet International logo on the screen.

43. Page 28: A photo of a open tissue box.

44. Page 28: A photo of multi-colored specialty panel samples.

45. Page 28: A photo of a "Myoplex" precision nutrition formula drink pouch.

46. Page 28: A photo of a countertop made from FOUNTAINHEAD laminates.

47. Page 28: A photo of an oil rig.

48. Page 28: A photo of a pillow.

49. Page 29: A photo of three jars of printing inks, in red, yellow and blue.

50. Page 29: A photo of a box of PHOTEX scanner wipes.

51. Page 29: A photo of a roll of Ilford SFX200 film.

52. Page 29: A photo of red door.

53. Page 29: A photo of a glue stick.

54. Page 29: A photo of a customer holding samples of Masonite siding.

55. Page 32: A photo of 3 landscape timbers.

56. Page 32: A photo of a seedling in a test tube.

57. Page 32: A photo of a pine cone.

58. Page 32: A photo of a square piece of oriented strand board.

59. Page 32: An illustration of a radiata pine tree.

60. Page 32: A photo of three pieces of molding made from eastern white pine.

61. Page 32: A photo of a customer holding a piece of lumber.

62. Page 33: A photo of a desk made from medium-density fiberboard.

63. Page 33: A photo of the frame of a house built with plywood and lumber.

64. Page 33: An illustration of two loblolly pine trees.

65. Page 61: A photo of the 15 members of the Board of Directors of International Paper.

IP 10K

EXHIBIT 21

Company and Subsidiaries:

	Sovereign Power UNDER WHICH ORGANIZED	Percentage of Voting Securities Owned By IMMEDIATE PARENT
International Paper Company (the "Company")	New York	Parent
Federal Paper Board Company, Inc.	North Carolina	100%
IP Timberlands, Ltd.*	Texas	The Company owns 100% of the Class A Common Stock and Class B Common Stock of IP Forest Resources Company, managing general partner of IPT, and 84% of the Class A Depositary Units and 100% of the Class B Depositary Units of IPT.

Names of subsidiaries which, if considered in the aggregate as a single subsidiary would not constitute a significant subsidiary, have been omitted.

[LOGO]

TWO MANHATTANVILLE ROAD
PURCHASE, NEW YORK 10577

JOHN T. DILLON
CHAIRMAN

March 28, 1997

Dear Fellow Shareholders:

The annual meeting of International Paper will be held this year at the Swissotel Chicago, 323 East Wacker Drive, Chicago, Illinois. The meeting will start at 9:00 a.m., on Thursday, May 8, 1997. You are cordially invited to attend this meeting and we look forward to seeing you there.

The following Proxy Statement outlines the business to be conducted at the meeting, which includes the re-election of one class of directors; ratification of the appointment of Arthur Andersen LLP as independent auditors for 1997; and consideration of one shareholder proposal concerning a chlorine phaseout schedule.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, YOUR REPRESENTATION AND VOTE ARE IMPORTANT. WE URGE YOU TO VOTE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD.

Attendance at the meeting will be limited to shareholders of record as of the close of business on March 21, 1997, or their duly appointed proxy holder (not to exceed one proxy per shareholder), and to guests of management. If you or your proxy holder plan to attend this meeting, please complete, sign and return the enclosed Request for Admittance card.

Thank you for your continued support.

Sincerely,

[SIGNATURE]

JOHN T. DILLON

[LOGO]

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**TO THE OWNERS OF COMMON STOCK OF
INTERNATIONAL PAPER COMPANY:**

The annual meeting of shareholders of International Paper Company will be held Thursday, May 8, 1997, at 9:00 a.m. at the Swissotel Chicago, 323 East Wacker Drive, Chicago, Illinois to:

1. Re-elect one class of directors comprised of five members to the Board of Directors;

2. Approve the ratification of the appointment of Arthur Andersen LLP as independent auditors for 1997;

3. Consider and vote upon a shareholder resolution concerning a schedule for total phaseout of chlorine and chlorine-containing compounds for papermaking; and

4. Transact such other business as may properly come before the meeting or any adjournments thereof.

YOUR BOARD OF DIRECTORS URGES SHAREHOLDERS TO VOTE FOR ITEMS 1 AND 2 AND AGAINST ITEM 3.

Reference is made to page 5 and Exhibits A and B of the attached Proxy Statement for the text of recent By-law amendments relating to a change in the advance notice provisions relating to share owner nominations for election of directors and a new requirement for advance notification of shareholder proposals being made at shareholder meetings, which texts are incorporated by reference in this Notice.

Shareholders of record at the close of business on March 21, 1997, will be entitled to vote at the meeting or any adjournments thereof.

By order of the Board of Directors

**JAMES W. GUEDRY
VICE PRESIDENT AND SECRETARY**

March 28, 1997

PROXY STATEMENT

INTERNATIONAL PAPER COMPANY
TWO MANHATTANVILLE ROAD
PURCHASE, NEW YORK 10577
(914) 397-1500

GENERAL INFORMATION

This statement is furnished by the Board of Directors of International Paper Company (the "Company") in connection with the solicitation of proxies to be voted at the annual meeting of shareholders to be held on May 8, 1997. Owners of shares of common stock outstanding are entitled to one vote for each share of common stock held of record at the close of business on March 21, 1997. As of that date, there were 300,865,985 shares of common stock outstanding.

The annual report, including the audited financial statements of the Company for the fiscal year ended December 31, 1996, has been mailed to shareholders with this Proxy Statement and should be read carefully in conjunction with this Proxy Statement before voting on any proposals contained herein, as it contains details of the Company's operations and other relevant disclosures.

PROXY PROCEDURE

Shares eligible to be voted and for which a proxy is properly signed and returned, will be voted in accordance with the instructions specified thereon. Where no instruction is received, eligible shares will be voted as recommended by the Board of Directors in this Proxy Statement. If any other matters come before the meeting, including any proposal submitted by a shareholder which was omitted from this Proxy Statement in accordance with the applicable provisions of the federal securities laws, the persons voting the proxies will vote them in accordance with their best judgment. As of the time this Proxy Statement was printed, management was not aware of any other matters to be voted upon. Any proxy may be revoked at any time before its exercise by submitting a written revocation or a new proxy, or by the shareholder's attendance and vote at the annual meeting.

Solicitation of proxies from the Company's shareholders may be undertaken by directors, officers and employees, as well as by Georgeson & Company Inc. Payments to that firm as compensation are estimated at approximately $14,500 plus reimbursable expenses. This solicitation may be carried out either by mail, telephone, telecommunication, or personal interview. The cost of any such solicitation will be borne by the Company.

The Company has a policy of confidentiality in the voting of shareholder proxies generally and uses the services of its registrar and transfer agent, ChaseMellon Shareholder Services, L.L.C., as independent inspectors of election to receive and tabulate the proxy vote.

This Proxy Statement and the form of Proxy were sent to shareholders commencing March 28, 1997.

MEETING ADMITTANCE PROCEDURES

Shareholders of record as of the close of business on March 21, 1997 (or their duly appointed proxy holder upon verification--not to exceed one proxy per shareholder) will be entitled to vote and attend the meeting. The following procedures have been adopted to insure that no inconvenience or delays are caused to the Company's shareholders or their proxy holders when entering the meeting.

If you plan to attend the annual meeting in person or will appoint a proxy to attend the meeting (other than the proxies set forth on the proxy card), please complete (including the name of the appointed proxy, if any), sign and return the enclosed Request for Admittance promptly so that an admittance card can be reserved for you or your proxy in advance of the meeting. These admittance cards will be delivered to you or your proxy holder upon verification of identification at the shareholders' admittance counter at the meeting.

Record shareholders who do not have admittance cards reserved for them at the meeting will be admitted upon verification of ownership at the shareholders' admittance desk. If you have not appointed a proxy in advance or have changed the appointed proxy on the Request for Admittance, your duly appointed proxy who will attend the meeting will be required to present evidence of your signature on the proxy (a copy of your driver's license or employment identification card or other identification with your signature) in order to determine that only valid proxies are admitted and voted.

Beneficial owners of record on March 21, 1997 (or their duly appointed proxy holder upon verification-- not to exceed one proxy per shareholder) can obtain admittance cards only at the shareholders' admittance desk by presenting evidence of common stock ownership in the Company. This evidence could be a proxy from the institution that is the record holder of the stock or your most recent bank or brokerage firm account statement, along with proper identification. If you are a beneficial shareholder who will appoint a proxy to attend the meeting on your behalf, your duly appointed proxy will be required to comply with the procedures in this paragraph, as well as the admittance procedures described above for duly appointed proxies not designated in advance on the Request for Admittance.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The Board is classified into three classes of directors: Class III directors, of which there are currently five, were elected until the 1997 annual meeting; Class I directors, of which there are currently four, were elected to serve until the 1998 annual meeting; and Class II directors, of which there are currently five, were elected until the 1999 annual meeting. Each class is elected for a three-year term, unless they retire earlier.

Eleven regular meetings and one special meeting of the Board of Directors were held in 1996. In addition, there were 24 Committee meetings. Each director attended at least 82% of the meetings of the Board and the Committees on which he or she serves. All of the directors attended an average of 95% of such meetings of the Board and the Committees on which they serve.

Beneficial ownership of current directors in equity securities of the Company is shown in the table on page 5.

In June 1996, the Company announced the donation of 2,200 acres of land along the Escatawpa River held by the Company's Moss Point mill in Jackson County, Mississippi, to The Conservation Fund for possible later disposition to the State of Mississippi and/or a university in the area which would manage the land for conservation and recreation purposes. The donation was valued at approximately $550,000. Mr. Noonan, a director of the Company, is chairman and chief executive officer of The Conservation Fund.

AUDIT COMMITTEE

The functions of the Audit Committee of the Board are to assist the Board in carrying out its responsibilities for monitoring management's accounting for the Company's financial results and for the timeliness and adequacy of the reporting of those results; to discuss and make inquiry into the audits of the Company's books made internally and by outside independent auditors, the Company's financial and accounting policies, its internal controls and its financial reporting; and to investigate and make a recommendation to the Board each year with respect to the appointment of independent auditors for the following year; inform the Board of any significant accounting matters, and review the performance of the Committee.

Current members of the Committee, none of whom is an employee of the Company, are J. C. Pfeiffer (Chairman), W. C. Butcher, J. R. Kennedy, P. F. Noonan and R. B. Smith.

Four meetings of the Committee were held in 1996.

MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE

The functions of the Management Development and Compensation Committee are to review Company policies and programs for the development of management personnel; to make recommendations to the Board with respect to any proposals for compensation or compensation adjustments of officers who are also directors of the Company; to authorize compensation or compensation adjustments for other officers of the Company; to administer the Company's executive bonus and Long-Term Incentive Compensation Plan; to review and endorse changes in Company employee retirement and benefits plans; to review officer candidates and endorse nominees for election as officers; to delegate to the Chief Executive Officer the authority to act on compensation adjustments at certain levels; to make recommendations to the Board with respect to directors' compensation; to review senior management succession planning; and to review the performance of the Committee.

Current members of the Committee, none of whom is an employee of the Company, are S. C. Gault (Chairman), W. C. Butcher, R. J. Eaton, T. C. Graham, E. T. Pratt, Jr. and C. R. Shoemate.

Six meetings of the Committee were held in 1996.

NOMINATING COMMITTEE

The functions of the Nominating Committee are to review the size and composition of the Board; to review possible director candidates and director nominations properly presented by shareholders; to recommend to the Board individuals suitable for election as directors; to review and recommend annually to the full Board the slate of nominees for election by the Company's shareholders; to review institutional affiliations of directors and director candidates for possible conflicts; and to review and recommend Board Committee assignments.

Current members of the Committee, none of whom is an employee of the Company, are W. C. Butcher (Chairman), D. F. McHenry, J. C. Pfeiffer, E. T. Pratt, Jr. and C. R. Shoemate.

Two meetings of the Committee were held in 1996.

ENVIRONMENT, HEALTH AND TECHNOLOGY COMMITTEE

The functions of the Environment, Health and Technology Committee are to review environmental, safety, and health and technological policies and programs throughout the Company; to assure that they are appropriate to the short- and long-term objectives of the Company in terms of industry leadership, compliance with federal and state laws and regulations and social responsibility; to advise the Board of the effectiveness of these policies and programs; and to review the performance of the Committee.

Current members of the Committee are T. C. Graham (Chairman), R. J. Eaton, S. C. Gault, J. R. Kennedy, P. F. Noonan and C. W. Smith.

Four meetings of the Committee were held in 1996.

OTHER COMMITTEES

Membership of the other regular Committees of the Board of Directors is shown on page 62 of the Company's annual report which accompanies this Proxy Statement.

FUTURE SHAREHOLDER PROPOSALS AND NOMINATIONS

For inclusion in the 1998 Proxy Statement and form of proxy relating to the meeting, shareholder proposals intended to be presented at the 1998 annual meeting must be made in writing and received by the Secretary of the Company at the Company's principal executive offices by the close of business on November 28, 1997.

Other shareholder proposals intended to be introduced at the 1998 annual meeting shall be made in accordance with Article I, Section 7 of the Company's By-laws, as set forth under Exhibit A and described under the heading "By-law Changes". The effect of this By-law is that shareholder proposals intended to be presented at the 1998 annual meeting, but not included in the 1998 Proxy Statement and form of proxy

relating to the meeting, must be received by the Secretary of the Company not earlier than February 5, 1998 nor later than March 7, 1998, if the annual meeting is held on May 7, 1998.

Nomination by shareholders for directors, at a meeting called for the purpose of electing directors, shall be made in accordance with Article II, Section 9 of the Company's By-laws, amended as set forth in Exhibit B and described under the heading "By-law Changes". The effect of this By-law is that shareholder nominations for the 1998 election of directors must be received by the Secretary of the Company not earlier than February 5, 1998, nor later than March 7, 1998, if the annual meeting is held on May 7, 1998.

BY-LAW CHANGES

Article I of the By-laws was amended on February 12, 1997 to add Section 7 relating to shareholder proposals which is set forth in Exhibit A and incorporated herein by reference. Article II, Section 9 of the By-laws, relating to shareholder nominations, was amended on February 12, 1997, and is set forth in Exhibit B which is incorporated herein by reference.

COMMON STOCK OWNERSHIP OF DIRECTORS AND MANAGEMENT

The following table shows, as of March 21, 1997, the number of shares of Company common stock beneficially owned (as defined by the Securities and Exchange Commission) or otherwise claimed by each current director and each nominee for director and by all directors and executive officers of the Company as a group. To the best knowledge of the Company, no person or group beneficially owns more than 5% of the Company's common stock outstanding, except as set forth below in the table.

NAME OF INDIVIDUAL OR GROUP	SHARES BENEFICIALLY OWNED (1)	PERCENT OF TOTAL COMMON STOCK OUTSTANDING
W.C. Butcher	6,984	
J.T. Dillon	304,235	
R.J. Eaton	3,400	
S.C. Gault	19,624	No director or officer owns as much as 1/5th of 1%
J.A. Georges	198,265	
T.C. Graham	14,960	
J.R. Kennedy	153,829	
D.F. McHenry	5,890	
P.F. Noonan	2,050	
J.C. Pfeiffer	7,134	
E.T. Pratt	6,960	
C.R. Shoemate	2,100	
R.B. Smith	7,000	
C.W. Smith	157,922	
J.P. Melican	131,894	
D.W. Oskin	151,531	
M.J. Turk	109,488	
All directors and executive officers as a group	1,622,158	0.54%
Merrill Lynch Co., Inc. and Merrill Lynch, Pierce Fenner & Smith Incorporated (2)	30,608,893	10.2%
Bank trustee under Company and subsidiary employee benefit plans (3)	25,523,640	8.5%
The Capital Group Companies, Inc., and Capital Research and Management Company (4)	15,165,000	5.0%

(FOOTNOTES FOR PRECEDING PAGE)

(1) Ownership shown includes securities over which the individual has or shares, directly or indirectly, voting or investment powers, including shares held in the Restricted Stock Plan for Non-Employee Directors, shares owned by a spouse or certain relatives and ownership by trusts for the benefit of such relatives, as required to be reported by the Securities and Exchange Commission. Certain individuals may disclaim beneficial ownership of some of these shares, but they are included for the purpose of computing the holdings and the percentages of common stock owned. Interests in shares resulting from participation in the Company's Salaried Savings Plan, Performance Share Awards, and Executive Continuity Awards, are included above. The above table does not include 1,073,137 shares represented by stock options granted executive officers under the Long-Term Incentive Compensation Plan, including options for 250,337 shares for Mr. Dillon, 128,700 shares for Mr. C. W. Smith, 151,800 shares for Mr. Melican, 121,300 shares for Mr. Oskin, 90,000 shares for Mr. Turk, and 726,000 shares for Mr. Georges which were granted prior to his retirement as an officer. In addition, under the Nonfunded Deferred Compensation Plan for Non-Employee Directors or the Unfunded Savings Plan, the Directors and executive officers (as indicated by the asterisk) listed below own the non-voting stock-equivalent Units set forth in the following chart:

DIRECTOR	STOCK UNITS	DIRECTOR	STOCK UNITS
W.C. Butcher	22,894	J.C. Pfeiffer	5,026
J.T. Dillon*	26,410	E.T. Pratt	42,124
R.J. Eaton	4,720	C.R. Shoemate	3,656
S.C. Gault	7,912	R.B. Smith	30,087
J.A. Georges	0	C.W. Smith*	15,727
T.C. Graham	26,923	J.P. Melican*	21,925
J.R. Kennedy	1,595		
D.F. McHenry	9,357	D.W. Oskin*	0
P.F. Noonan	3,607	M.J. Turk*	4,363

(2) As of February 14, 1997, Merrill Lynch & Co., Inc. and Merrill Lynch, Pierce Fenner & Smith Incorporated are, respectively, a parent holding company and a broker-dealer registered under Section 15 of the Securities Exchange Act of 1934 (the "Act"). They, or subsidiaries, hold these shares primarily as sponsor and investment advisor to various registered investment companies, but disclaim beneficial ownership thereof other than certain of which are held in proprietary accounts.

(3) As of December 31, 1996, State Street Bank & Trust Co., N.A. holds such shares as the independent trustee in trust funds for employee savings, thrift, and similar employee benefit plans of the Company and its subsidiaries ("Company Trust Funds"). In addition, State Street Bank & Trust Co., N.A. is trustee for various third party trusts and employee benefit plans and is an Investment Advisor. As a result of its holdings in all capacities, State Street Bank & Trust Co., N.A. is the record holder of 25,523,640 shares of common stock of the Company. The trustee disclaims beneficial ownership of all such shares except 3,229,706 shares of which it has sole power to dispose or to direct the disposition. The common stock held by the Company Trust Funds is allocated to participants' accounts and such stock or the cash equivalent will be distributed to participants upon termination of employment or pursuant to withdrawal rights. The trustee votes the shares of common stock held in the Company Trust Funds in accordance with the instructions of the participants; shares for which no instructions are received are voted proportionately to those shares voted by participants.

(4) As of February 12, 1997, the Capital Group Companies, Inc. holds such shares as the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over these securities. The investment management companies, which include a "bank" as defined in Section 3(a)6 of the Act and several investment advisors registered under Section 203 of the Investment Advisors Act of 1940, provide investment advisory and management services for their respective clients which include registered investment companies and institutional accounts. The Capital Group Companies, Inc. does not have investment power or voting power over any of the securities reported here; however, The Capital Group Companies, Inc. may be deemed to "beneficially own" such securities by virtue of Rule 13d-3 under the Act. Capital Research and Management Company, an investment advisor registered under Section 203 of the Investment Advisors Act of 1940 and wholly owned subsidiary of The Capital Group Companies, Inc., is the beneficial owner of these shares as a result of acting as investment advisor to various investment companies registered under Section 8 of the Investment Company Act of 1940.

MATTERS TO BE CONSIDERED AT THE MEETING

ITEM NO. 1--RE-ELECTION OF FIVE DIRECTORS

Dr. Arthur G. Hansen, after many years of outstanding service to the Company, reached the mandatory retirement age in February 1997. Prior to the 1998 annual meeting, Mr. Roger B. Smith (Class I director) and Mr. Stanley C. Gault (Class I director) will reach mandatory retirement age, the former in July 1997 and the latter in January 1998.

Five (5) directors are to be re-elected at this meeting as Class III directors for three-year terms expiring in 2000. Each nominee is currently a director of the Company. Election requires the affirmative vote by the holders of a plurality of outstanding common stock voting at the annual meeting of shareholders. A plurality means that the five (5) nominees receiving the largest number of votes cast will be elected. Votes which are withheld from any nominee, as well as broker non-votes, will not be counted in such nominee's favor. Shareholders voting at the meeting may not vote for more than the number of nominees listed in the Proxy Statement. Proxies given to management to vote will be voted according to instructions given, but only for nominees listed in the Proxy Statement. The term of the present Class III directors expires at the adjournment of the 1997 annual meeting. The five nominees for re-election at that meeting as Class III directors are listed below:

CLASS III DIRECTORS--TERM EXPIRING IN 1997

[PHOTO]

ROBERT J. EATON, 57, Chairman, President and Chief Executive Officer of the Chrysler Corporation. He joined Chrysler in 1992, as vice chairman and chief operating officer and a member of the Board. Prior to joining Chrysler, his 29-year career with General Motors included various management positions, the most recent being president of General Motors Europe (1988 to 1992). He is a fellow of both the Society of Automotive Engineers and the Engineering Society of Detroit and a member of the National Academy of Engineering. He is a member of The Business Council and The Business Roundtable. He also is a member of the President's Advisory Committee on Trade Policy and Negotiations and serves as a director of The Economic Strategy Institute and the U.S./Japan Business Council.
Director since January 10, 1995

[Photo]

JOHN A. GEORGES, 66, retired Chairman and Chief Executive Office of International Paper. He was elected chief executive officer in 1984 and became chairman and chief executive officer in 1985. He was a director, chairman of the board and chief executive officer of IP Forest Resources Company (the managing general partner of IP Timberlands, Ltd.) from 1985 to 1996. Since retirement from International Paper, he has joined Windward Capital Partners as senior managing director. He is a director of AK Steel Holding Corporation, Ryder Systems, Inc. and Warner-Lambert Company. He is a member of The Business Council, The Trilateral Commission, and Bankers Trust European Advisory Board. He is a trustee of the Public Policy Institute of the Business Council of New York State and president of the University of Illinois Foundation.
Director since February 1, 1980

[Photo] DONALD F. MCHENRY, 60, University Research Professor of Diplomacy and International Affairs at Georgetown University since 1981. He is president of the IRC Group and a director of American Telephone and Telegraph Company, The Coca-Cola Company, Bank of Boston Corporation, the First National Bank of Boston, SmithKline Beecham plc and the Institute for International Economics. He is a trustee of The Brookings Institution, The Mayo Foundation and Columbia University; and chairman of the board of Africare.
Director since April 14, 1981

[Photo] PATRICK F. NOONAN, 54, Chairman of the Board of The Conservation Fund (a nonprofit organization dedicated to conserving America's land and water resources) and previously, also its chief executive officer since 1985. Prior to that he was president of The Nature Conservancy. He is a trustee of The National Geographic Society. He is also a director of Ashland, Inc., the Fund for Government Investors, Saul Centers and the American Gas Association Index Fund. He is a member of the Board of Visitors of Duke University School of the Environment.
Director since December 14, 1993

[Photo] CHARLES R. SHOEMATE, 57, Chairman, President and Chief Executive Officer of CPC International Inc. He was elected president and a member of its board of directors in 1988, chief executive officer in August 1990 and chairman in September 1990. He joined CPC International in 1962 and progressed through a variety of positions in manufacturing, finance and business management within the consumer foods and corn refining businesses. In 1981, he was named president of Canada Starch Company, CPC's Canadian subsidiary. He was elected vice president of the corporation in 1983, and in 1986 became president of the Corn Refining Division. He is a director of CIGNA Corporation and the Grocery Manufacturers of America, Inc. He is a member of the Business Roundtable; a trustee of the Committee for Economic Development; and a trustee of The Conference Board.
Director since November 1, 1994

Other directors who will continue to serve are listed below under their respective classes. None of these directors are to be elected at the 1997 annual meeting.

CLASS I DIRECTORS--TERM EXPIRING IN 1998

[PHOTO] JOHN T. DILLON, 58, Chairman and Chief Executive Officer since 1996. Prior to that he was executive vice president--packaging from 1987 to 1995 when he assumed the position of president and chief operating officer. He is also a director and chairman of the board of IP Forest Resources (the managing general partner of IP Timberlands, Ltd.) and a director of Caterpillar Inc. He is chairman of the board of The National Council on Economic Education.
Director since March 1, 1991

[Photo] STANLEY C. GAULT, 71, retired Chairman of the Board (June 1991 to June 1996) and Chief Executive Officer (June 1991 to December 1995) of The Goodyear Tire & Rubber Company. Previously, he was chairman and chief executive officer of Rubbermaid Incorporated (1980 to 1991). He is a director of Avon Products, Inc., The Timken Company and Wal-Mart Stores, Inc. He is a trustee and chairman of the board of The College of Wooster and honorary vice chairman of the National Association of Manufacturers.
Director since January 8, 1980

[Photo] JOHN R. KENNEDY, 66, retired President and Chief Executive Officer of Federal Paper Board Company, Inc. from 1975 to 1996. He is a director of DeVlieg Bullard, Inc., Chase Brass Industries, Inc. and Holnam, Inc. He is director and chairman of the board of Georgetown University, on the board of governors of the United Nations Association of the United States of America, and one of the directors for the Foreign Policy Association.
Director since March 12, 1996

[Photo] ROGER B. SMITH, 71, retired Chairman and Chief Executive Officer of General Motors Corporation from 1981 to 1990. He is a director of IP Forest Resources Company (the managing general partner of IP Timberlands, Ltd.) and Johnson & Johnson. He is a member of The Business Council and is a trustee of the Michigan Colleges Foundation, Inc. and the Sloan Foundation.
Director since December 1, 1989

CLASS II DIRECTORS--TERM EXPIRING IN 1999

[PHOTO] WILLARD C. BUTCHER, 70, retired Chairman and Chief Executive of The Chase Manhattan Bank, N.A. He is a director of ASARCO, Incorporated, and Texaco, Inc. He is a member of The Business Council, the International Advisory Board for Banca Nazionale del Lavaro, the International Advisory Council of The Chase Manhattan Bank and vice chairman of the Lincoln Center for the Performing Arts, Inc. He is a trustee emeritus of the American Enterprise Institute for Public Policy Research and a fellow emeritus of Brown University and a trustee of the Business Committee for the Arts, Inc.
Director since August 1, 1989.

[Photo] THOMAS C. GRAHAM, 70, Consultant. Retired Chairman of the Board of AK Steel Corporation. Previously, he was chairman and chief executive officer, elected to those posts concurrent with the formation of AK Steel Holding Corporation, a publicly held corporation which emerged from the privately-held Armco Steel Company, L.P. in April of 1994. He had been named president and chief executive officer of Armco Steel in June 1992. He was formerly chairman and chief executive officer of Washington Steel Corporation until 1992. He is a director of Hershey Foods Corporation and IP Forest Resources Company (the managing general partner of IP Timberlands, Ltd.).
Director since October 14, 1986

[Photo] JANE C. PFEIFFER, 64, Management Consultant. She is a director of Ashland, Inc., IP Forest Resources Company (the managing general partner of IP Timberlands, Ltd.), J.C. Penney Company, Inc., and The Mutual Life Insurance Company of New York. She is a trustee of the Conference Board, the University of Notre Dame and the Overseas Development Council and a member of The Council on Foreign Relations.
Director since June 14, 1977

[Photo] EDMUND T. PRATT, JR., 70, retired Chairman of the Board (from 1972 to 1992) and Chief Executive Officer from (1972-1991) of Pfizer Inc. He is a director of The Chase Manhattan Corporation, The Chase Manhattan Bank, N.A., and General Motors Corporation. He is a director and member of the Executive Committee of AEA Investors, Inc., and a member of the Board of Trustees of Logistics Management Institute. Until February of 1997 he was also a director of Minerals Technology and Pfizer, Inc.
Director since September 9, 1975

[Photo] C. WESLEY SMITH, 57, Executive Vice President--printing papers since 1992. Prior thereto, he was president--International Paper--Europe from 1989.
Director since December 12, 1995

ITEM NO. 2--RATIFICATION OF THE APPOINTMENT OF ARTHUR ANDERSEN LLP AS INDEPENDENT AUDITORS FOR 1997

The Audit Committee has considered the qualifications of Arthur Andersen LLP and recommended that the Board of Directors appoint them as independent auditors of the consolidated financial statements of the Company for the year 1997. The Committee reviewed its performance in prior years, as well as its reputation for integrity and competence in the fields of accounting and auditing. The Committee has expressed its satisfaction with Arthur Andersen LLP in all of these respects. The Committee's review also included inquiry concerning litigation involving Arthur Andersen LLP and the existence of any investigations by the Securities and Exchange Commission into the financial reporting practices of the companies audited by them. In this respect, the Committee concluded that the ability of Arthur Andersen LLP to perform services for the Company is not in any way adversely affected by any such investigation or litigation.

The Board of Directors desires to obtain shareholders' approval of the Board's action in appointing Arthur Andersen LLP, as independent auditors of the consolidated financial statements of the Company for the year 1997.

Representatives of Arthur Andersen LLP will be present at the annual meeting to respond to appropriate questions and to make a statement if he or she desires and to answer appropriate questions.

Approval of Item No. 2 requires the affirmative vote of the holders of a majority of the shares voting on this proposal. Abstentions and broker non-votes will not be counted as having voted on this Item No. 2.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF ARTHUR ANDERSEN LLP AS INDEPENDENT AUDITORS OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY FOR 1997

ITEM NO. 3--SHAREHOLDER PROPOSAL CONCERNING A CHLORINE PHASEOUT SCHEDULE

Progressive Asset Management, 1814 Franklin Street, Oakland, California 94612, acting as agent for its client, Educational Foundation of America, represented that, as of November 25, 1996, its client owned 6,000 shares of common stock of the Company and has informed the Company that it intends to present the following proposal at the annual meeting. Four groups whose names, addresses and shareholdings will be supplied upon oral or written request to the Secretary of the Company have co-sponsored this proposal. The text of the proposal follows:

"WHEREAS the manufacturing processes used by the company have the potential to form organochlorines, including dioxins and furans, which may be harmful to human health and the environment even in the most minute (or not 'detectable') amounts;

"WHEREAS national and international bodies have publicly recognized the significant dangers posed by chlorine-based bleaching processes in the pulp and paper industry including the U.S. Environmental Protection Agency, the American Public Health Association, The International Joint Commission, The World Bank, and the Intergovernmental Forum on Chemical Safety (convened by the United Nations Environment Program). Conclusions from these agencies reflect the growing sense of urgency regarding the need to phase out the use of chlorine-containing compounds;

"WHEREAS the company has already recognized the threat posed by dioxins and furans by reducing the level of organochlorines in its effluents by converting most of its bleach lines to a process which substitutes chlorine dioxide for elemental chlorine. However, chlorine dioxide is extremely unstable and so does not eliminate the potential for threats of explosion endangering environment and worker safety;

"WHEREAS we believe dioxins can be generated through the use of chlorine dioxide; even at levels below analytical detection, dioxins can accumulate in the bodies of living creatures as they pass through the food chain--the American Public Health Association has stated that even at low levels, exposure to dioxins can result in or contribute to reproductive failure, birth defects, developmental impairment, hormonal disruption, behavioral disorders, immune suppression and cancer;

"WHEREAS we believe the best method of preventing continued contamination from persistent or bioaccumulative toxic substances is to phase out production processes (including chlorine dioxide substitution) that inadvertently generate and release such substances;

WHEREAS we believe worldwide demand is increasing for paper produced without the release of hazardous organochlorines (i.e. Totally Chlorine-Free or TCF paper);

"WHEREAS significant cost savings and competitive advantages could result from the conversion to TCF;

"WHEREAS totally chlorine-free processes are in use at more than two dozen kraft mills worldwide which produce high quality pulp, and these processes appear to be the most technologically feasible and cost-effective ways to move towards effluent-free production;"

"RESOLVED THAT THE SHAREHOLDERS SHALL REQUEST THE COMPANY ESTABLISH A SCHEDULE FOR THE TOTAL PHASEOUT FROM ITS PULP AND PAPER PRODUCTION PROCESSES OF CHLORINE AND CHLORINE-CONTAINING COMPOUNDS".

THE STATEMENT OF SHAREHOLDERS IN SUPPORT OF THE RESOLUTION IS AS FOLLOWS:

SUPPORTING STATEMENT

"The company's actions to reduce dioxins and furans in its effluents are commendable. However, the Environmental Protection Agency's comprehensive draft review of dioxin states that health effects attributable to dioxin may be occurring in humans at very low levels of exposure. This suggests that there may be no safe or acceptable exposure to dioxins or furans exists (sic). We believe the Company could be materially affected by clean up costs and fines. Furthermore, investment in chlorine dioxide substitution delays the adoption of more protective technologies (totally chlorine-free and effluent-free). For the company to claim to be an environmental leader, we believe it must go beyond current or proposed regulations to COMPLETELY, and not 'virtually' eliminate the potential for formation and release of organochlorines in pulp and paper production.

POSITION OF YOUR COMPANY'S BOARD OF DIRECTORS

Your Board of Directors recommends that the shareholders vote AGAINST the proposal for the reasons set forth below:

As noted in the shareholder's proposal, the Company has eliminated dioxins and furans in its mill effluents, utilizing the EPA's very low (10 parts per quadmillion) detection levels.

The Company formerly used sodium-hypochlorite and elemental chlorine as bleaching agents in its pulp and paper making process but began phasing it out in 1988. The Company set and met a schedule for conversion of all of its mills to 100% elemental chlorine free ("ECF") bleaching by December 31, 1996. Two additional mills acquired in 1996 as part of the merger with Federal Paper Board will be converted by the end of 1998. Having voluntarily expended $160 million, the Company has eliminated any detectable dioxins or furans, by-products of using chlorine as a bleaching agent.

We disagree with the proponent's opinions regarding chlorine dioxide. We believe that:

- There is no scientific evidence that an ECF mill produces any dioxin;

- There is no scientific evidence that there is any bioaccumulation of dioxin associated with an ECF mill;

- There is no national or international body that has publicly recognized any dangers, much less significant dangers, from ECF bleaching. In fact, the opposite is true: all agencies that have evaluated ECF bleaching, such as the U.S. EPA, have supported ECF bleaching as protective of health and the environment;

- Totally Chlorine Free ("TCF") pulp is qualitatively inferior to ECF pulp and requires more wood per unit of pulp;

- To convert International Paper mills to TCF would cost an estimated $500 million over and above what has already been spent on ECF conversion with no environmental, health or other benefits, but with serious reductions in product quality and significant increases in energy and wood fiber usage for the same unit of production.

We believe that no valid health, safety or financial objective would be obtained from the very substantial expenditure of capital required to implement a total phase out of chlorine dioxide in our mill system. Since none of our major U.S. competitors are utilizing totally chlorine-free processes, to require International Paper to do so would put us at a significant cost disadvantage from a competitive standpoint.

Approval of Item No. 3 requires the affirmative vote of the holders of a majority of the shares voting on this proposal. Abstentions and broker non-votes will not be counted as having voted on this proposal.

THE BOARD OF DIRECTORS RECOMMENDS
A VOTE AGAINST THIS ITEM NO. 3

REPORT OF THE MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

As of December 31, 1996, the Management Development and Compensation Committee (the "Committee") consisted of six outside directors: Willard C. Butcher, Robert J. Eaton, Stanley C. Gault, Thomas C. Graham, Edmund T. Pratt, Jr. and Charles R. Shoemate. Mr. Gault is chairman. The Committee met six times in 1996 with a 98% attendance record. On April 1, 1996, John T. Dillon replaced the retiring John A. Georges as chairman and chief executive officer of International Paper. The chairman and chief executive officer of the Company was not present during any discussion of his compensation.

GENERAL

Total compensation received by the named executive officers consists of salary, cash bonus, stock options and restricted stock. The total compensation has been designed to attract the most qualified talent, motivate them to reach their highest level of achievement, reward sustained superior performance and retain those senior managers whose competencies are prerequisite to shareholder value appreciating over the long term. The cash bonus and long-term incentives introduce considerable risk in the total executive compensation package, since the value of these components may vary significantly from year to year based on Company performance, individual performance and Company stock price.

The Committee periodically reviews each component of the Company's executive compensation program to ensure that pay levels and incentive opportunities are competitive and that incentive opportunities are linked to Company performance. The Committee relates total compensation levels for the Company's executives to the compensation paid at a select group of comparator companies. The Committee reviews and approves the selection of companies used for compensation comparisons. International Paper also uses independent compensation consulting firms to advise the Committee. In 1996, a comprehensive pay study of incentive-eligible positions was conducted by the independent compensation consulting firms, Hewitt Associates and Skopos Consulting, and included a cross section of 31 manufacturing companies and 12 independent salary surveys. The 31 manufacturing companies included in the pay study are in industries

that are close in size ($18 billion average revenue) and manufacturing complexity to International Paper and who compete directly with International Paper for executive talent. The twelve independent salary surveys also have a direct focus and impact on various sections of International Paper. The Company's compensation levels for each component of pay were compared to the median of the comparator group's competitive pay.

The Company's Management Incentive Plan (MIP) links payment of an annual cash bonus directly to achievement of a specified level of net earnings, which accounts for 80% of target bonus funds available, and predetermined targets for qualitative nonfinancial performance factors, which were quality, safety and employee development, which account for the remaining 20%. In 1996, the Company did not achieve the specified level of net earnings and, accordingly, there was no MIP cash bonus fund, and no management incentive payments to the participants.

The Company's Long-Term Incentive Compensation Plan and amendments, which were approved by the shareholders in 1989 and 1994, respectively, provide for awards of stock options and restricted stock in the form of performance shares which are made in amounts which the Committee determines to be competitive based on the surveys described above. Stock options are granted at fair market value at the time of the award and are restricted for four years. Contingent awards of performance shares are made in December of the year preceding a five-year Award Period. At the end of the five-year Award Period, the number of shares earned is determined by financial performance which the Committee measures by comparing the Company's and Peer Paper Group's (eight companies which comprise the Peer Line of the Performance Graphs on page 19) and weighing equally, the five-year average return on equity and earnings per share. If the threshold level of performance is not attained, no shares are earned. Above the threshold, the contingent award is reduced if the target goal is not met or supplemented if the target goal is exceeded. Payouts of earned performance shares are made in Company stock at the end of the five-year Award Period. One half of the shares earned is mandatorily deferred for an additional three years, and payout is subject to the executive's continued employment throughout that period.

From time to time executive continuity awards are made with long-term vesting requirements which are designed to encourage retention of a small number of senior executives designated by the Committee. The size of an award, and any adjustments, is determined by the Committee to reflect an executive's level of responsibility and individual performance. As provided by the Company's Long-Term Incentive Compensation Plan, a continuity award may consist of restricted stock or a tandem grant of restricted stock together with a related non-qualified stock option which is granted at fair market value and restricted until a specified age. If the stock option is exercised, then the related restricted shares are canceled; if any portion of the stock option is not exercised by the date the continuity award terminates, then the less valuable component of the tandem award is canceled.

The Committee has considered the provisions of the Omnibus Budget Reconciliation Act of 1993 which limit deductibility of compensation paid to named executive officers which exceeds $1 million. The Committee endorsed amendments to the Company's Long-Term Incentive Compensation Plan in 1994 to make certain sections of the plan compatible with those provisions, while maintaining the Committee's flexibility in the Company's Management Incentive Plan to exercise business judgment in determining awards to take account of business conditions or the performance of individual executives. In 1996, the Company does not expect any limitations upon deductibility of compensation. The Committee will continue to monitor tax and other related compensation legislation.

THE 1996 EXECUTIVE OFFICERS' COMPENSATION

The Committee approved merit salary increases for two of the named executive officers based on competitiveness of the executives' pay and personal performance, and promotional salary increases for three of them. In April 1996, upon being named chief executive officer of the Company, Mr. Dillon's salary was increased to $750,000, which is below the median base salary level for CEO's in the group of surveyed companies referred to above. Salaries paid to the named officers in 1996, including Mr. Georges's salary

while actively employed, were competitively positioned from below to slightly above the median of the survey companies.

No named executive officers received MIP awards in 1996 since no bonus fund was generated.

The performance share guidelines described above were used by the Committee to determine contingent performance share awards in December 1996 to the named executive officers for the 1997-2001 Award Period and the payout in 1996 of earned shares for the 1991-1995 Award Period. The pretax values of Mr. Dillon's performance share awards in 1996 were: $999,990 in contingent restricted stock for the 1997-2001 Award Period; $94,379 in deferred restricted stock for the 1991-1995 Award Period; and $94,379 in earned shares (long-term incentive payout) for the 1991-1995 Award Period. The shares earned for the 1991-1995 Award Period reflect Company performance which exceeded performance of the Peer Paper Group.

The Committee granted stock options in 1996 based on competitive surveys described earlier, without consideration of the amount of stock options already held by named executive officers. Mr. Georges's 1996 stock option award was 38,000 shares, the same as his award in 1995 and 1994. Mr. Dillon's 1996 stock option award was 26,000 shares; his 1995 stock option awards were 19,737 shares which reflected his promotion to president; and, his 1994 stock option award was 16,000 shares.

In 1996, continuity awards of restricted stock and a related option were granted to three named executive officers based on their promotions. Mr. Dillon was promoted to chief executive officer, and Messrs. Oskin and Turk were promoted as executive vice presidents of the Company.

THE MANAGEMENT DEVELOPMENT AND COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Willard C. Butcher
Robert J. Eaton
Stanley C. Gault, chairman
Thomas C. Graham
Edmund T. Pratt, Jr.
Charles R. Shoemate

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No executive officer or other employee of the Company served as a member of the Committee or as a member of the compensation committee on the board of any company where an executive officer of such company is a member of the Committee. Mr. Graham, a member of the Committee, was the chairman and chief executive officer of AK Steel Holding Corporation until January 30, 1997; Mr. Georges, chairman and chief executive officer of the Company until March 31, 1996, is on the board of AK Steel Holding Corporation.

PERFORMANCE GRAPHS

The following charts compare a $100 investment in International Paper stock with a similar investment in a peer group of eight key competitor companies and the S&P 500. The charts portray total nominal return, 1991-1996 and 1986-1996 assuming reinvestment of dividends. The Company has presented information pertaining to total shareholder return over two different time periods since all holders of the common stock did not acquire their investment in International Paper on the same date. The Company believes a presentation in this format more accurately reflects the financial return provided to the holders of its common stock which may not be evident if only one time period was highlighted.

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
5 YEARS ENDED DECEMBER 31, 1996*

	International Paper	S&P 500 Index	Peer Group**
1991	$100	$100	$100
1992	96	108	112
1993	101	118	127
1994	115	120	131
1995	118	165	143
1996	130	203	154

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

COMPARISON OF TEN-YEAR CUMULATIVE TOTAL RETURN*

	International Paper	S&P 500 Index	Peer Group**
1986	100	100	100
1987	116	105	109
1988	130	123	115
1989	163	162	127
1990	160	156	102
1991	217	204	139
1992	209	220	156
1993	218	242	177
1994	249	245	182
1995	256	337	199
1996	281	415	215

Assumes $100 invested on December 31, 1986
* Total return assumes reinvestment of dividends.
** Includes Boise Cascade, Champion, Georgia Pacific, Mead, Stone Container, Union Camp, Westvaco, and Weyerhaeuser.

ADDITIONAL INFORMATION
REGARDING EXECUTIVE COMPENSATION

The compensation of the Company's executive officers is approved by the Committee except for the compensation of the officer-directors, which is recommended by the Committee and approved by the Board of Directors.

The following tables set forth information with respect to the retired chairman and chief executive officer, the new chairman and chief executive officer, and the four most highly compensated executive officers of the Company for the years 1994-1996.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION CONTINGENT AWARDS		
(A) NAME AND POSITION	(B) YEAR	(C) SALARY ($)(1)	(D) BONUS ($)(2)	(E) OTHER ANNUAL COMPENSATION ($)(3)	(F) RESTRICTED STOCK AWARD ($)(4)	(G) OPTIONS (#)(5)	(H) ALL OTHER COMPENSATION ($)(6)
John T. Dillon as	1996	$ 712,500	$ 0	$ 0	$4,681,367	26,000	$ 172,397
Chief Executive Officer	1995	$ 490,417	$ 600,000	$ 0	$2,227,287	35,737	$ 129,717
	1994	$ 430,000	$ 370,000	$ 0	$ 398,690	16,000	$ 96,681
James P. Melican as	1996	$ 471,667	$ 0	$ 0	$ 467,277	15,400	$ 111,882
Executive Vice President	1995	$ 446,667	$ 410,000	$ 0	$ 373,480	27,700	$ 106,803
	1994	$ 420,000	$ 345,000	$ 0	$ 362,664	64,592	$ 88,763
C. Wesley Smith as	1996	$ 429,667	$ 0	$ 0	$ 510,635	25,000	$ 114,086
Executive Vice President	1995	$ 380,750	$ 410,000	$ 0	$ 551,428	36,600	$ 93,299
	1994	$ 333,750	$ 335,000	$ 357,784	$ 362,664	15,400	$ 78,922
David W. Oskin as	1996	$ 397,917	$ 0	$ 0	$ 950,960	50,800	$ 143,199
Executive Vice President	1995	$ 461,315	$ 129,410	$ 149,719	$ 600,197	12,000	$ 256,608
	1994	$ 157,820	$ 0	$ 156,578	$ 302,430	9,600	$ 62,082
Milan J. Turk as	1996	$ 332,083	$ 0	$ 0	$1,382,943	12,000	$ 68,842
Executive Vice President	1995	$ 293,750	$ 260,000	$ 0	$ 287,108	27,200	$ 60,554
	1994	$ 278,333	$ 210,000	$ 0	$ 279,006	9,600	$ 37,164
John A. Georges as	1996	$ 265,000	$ 0	$ 0	$ 0	443,030	$ 215,263
Chief Executive Officer	1995	$1,035,000	$1,300,000	$ 0	$1,083,393	38,000	$ 264,713
(retired 03/31/96)	1994	$ 953,750	$1,115,000	$ 0	$1,051,857	38,000	$ 198,548

(1) Salary paid in 1996 including amounts deferred pursuant to Section 401(k) of the Internal Revenue Code or pursuant to unfunded deferral arrangements. Includes, for 1995, Mr. Oskin's salary paid by Carter Holt Harvey, Ltd. during the six months after which it became a Company subsidiary.

(2) Management Incentive Plan awards paid in 1996 and 1995 attributable to 1995 and 1994 respectively, including amounts deferred pursuant to Section 401(k) of the Internal Revenue Code or pursuant to deferral arrangements reported in the year earned. No awards were paid for 1996.

(3) Includes (a) settlement of tax equalization with respect to Mr. Smith's expatriate assignment from 1989 to 1992 and (b) payment of household maintenance expenses and home leave of $81,477 and $47,018 in 1995; and $94,775 and $52,085 in 1994, respectively, while Mr. Oskin was on an expatriate assignment with an affiliate, later a subsidiary.

(4) Represents (a) 150% of the value of gross target restricted performance shares contingently awarded in 1996 for the 1997-2001 award period, in 1995 for the 1996-2000 award period, and in 1994 for the 1995-1999 award period, which is the maximum achievable for those award periods; 100% of the target restricted performance shares are earned if the target goal is met for an award period, with the awards being reduced if the goal is not met or entirely forfeited if a predetermined threshold goal is not met; (b) 150% of the value of incremental maximum awards for prior periods made upon promotion, subject to the same contingencies; and (c) the value of continuity awards of $840,000 in 1996 and $858,750 in 1995 for Mr. Dillon, $336,000 in 1996 for Mr. Oskin, and $648,000 in 1996 for Mr. Turk. The number and dollar value of restricted stock holdings at December 31, 1996 are as follows: 199,135/$8,064,950 for Mr. Dillon; 92,053/$3,728,127 for Mr. Melican; 93,164/ $3,773,150 for Mr.Smith; 88,487/$3,583,712 for Mr. Oskin; 80,352/$3,254,276 for Mr. Turk and none for Mr. Georges, who is now retired.

These numbers include the restricted stock portion of the tandem awards of restricted stock/options made to the respective individuals under continuity awards. Dividends are paid on restricted shares.

(5) Includes replacement options if applicable. Except for Mr. Georges referred to in footnote (4) above, these figures do not include the tandem option awards made as a part of the continuity awards, insofar as the awards are characterized as restricted stock awards. Such tandem options were for 100,000 shares for Mr. Dillon in each of 1996 and 1995; 40,000 shares for Mr. Oskin in 1996; and 80,000 shares for Mr. Turk in 1996.

(6) 1996 totals represent Company contributions to the Salaried Savings Plan and Unfunded Savings Plan, cost of group life, premium payments grossed up for taxes for the Executive Supplemental Insurance Plan (ESIP), accruals for ESIP lump sum dividend payments, vacation pay upon retirement, reimbursement of relocation and overseas allowance as follows: $63,000, $12,375, $76,176, $20,846, $0 and $0 for Mr. Dillon; $42,320, $12,228, $37,010, $20,323, $0 and $0 for Mr. Melican; $40,304, $11,099, $45,462, $17,221, $0 and $0 for Mr. Smith; $7,287, $3,083, $24,317, $9,372, $0 and $99,141 for Mr. Oskin; $28,420, $8,476, $31,946, $0 and $0 for Mr. Turk; and $16,255, $13,041, $78,552, $8,753, $98,662 and $0 for Mr. Georges.

The table below sets out information on the option grants made in 1996 to the named executive officers:

OPTION GRANTS IN 1996

	INDIVIDUAL GRANTS				
(A) NAME AND POSITION	(B) OPTIONS GRANTED (#)(1)	(C) % OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1996	(D) EXERCISE OR BASE PRICE ($/SH)	(E) EXPIRATION DATE	(F) GRANT DATE VALUE ($)(2)
John T. Dillon as Chief Executive Officer	26,000(3)	0.78%	$ 39.000	01/09/06	$ 217,768
James P. Melican as Executive Vice President	15,400(3)	0.46%	$ 39.000	01/09/06	$ 128,986
C. Wesley Smith as Executive Vice President	4,000(4)	0.12%	$ 43.750	01/12/98	$ 20,882
	4,000(4)	0.12%	$ 43.750	01/10/99	$ 28,313
	17,000(3)	0.51%	$ 39.000	01/09/06	$ 142,386
David W. Oskin as Executive Vice President	5,030(4)	0.15%	$ 39.500	01/12/98	$ 27,632
	2,570(4)	0.08%	$ 39.500	01/12/98	$ 14,118
	8,600(4)	0.26%	$ 39.500	01/10/99	$ 60,000
	9,600(4)	0.29%	$ 39.500	01/09/00	$ 69,848
	9,600(4)	0.29%	$ 39.500	01/08/01	$ 69,848
	15,400(3)	0.46%	$ 39.000	01/09/06	$ 128,986
Milan J. Turk as Executive Vice President	12,000(3)	0.36%	$ 39.000	01/09/06	$ 100,508
John A. Georges as Chief Executive Officer (retired 03/31/96)	5,030(4)	0.15%	$ 38.750	01/12/98	$ 27,770
	160,000(4)	4.82%	$ 38.125	02/24/99	$1,123,616
	40,000(4)	1.21%	$ 36.625	02/24/99	$ 269,852
	40,000(4)	1.21%	$ 36.875	02/24/99	$ 271,692
	40,000(4)	1.21%	$ 35.875	02/24/99	$ 264,324
	80,000(4)	2.41%	$ 36.500	02/24/99	$ 537,856
	40,000(4)	1.21%	$ 35.750	02/24/99	$ 263,404
	38,000(3)	1.15%	$ 39.000	01/09/06	$ 318,277

(1) Each option granted may be replaced upon exercise. This means that a new option is granted for the same number of shares as is exercised, with the then current market value becoming the new exercise price. The replacement option does not extend the term of the original option. Options may not be replaced more than three times. Original options are indicated by "(3)" and replacement options by "(4)". Except for the replacement option grant of 400,000 shares to Mr. Georges upon exercise of his options which resulted in the cancellation of restricted stock, these numbers do not include any options granted as part of the tandem awards of restricted stock/options made as continuity awards in 1996. The restricted stock is reported as part of the total holdings of the respective individuals under footnote 3 to the Summary Compensation Table.

(2) Grant date value is based on the Black-Scholes option pricing model adapted for use in valuing stock options. The real value of the options in this table depends upon the actual performance of the Company's stock during the applicable period and upon when they are exercised. The Company believes that no model accurately predicts the

future price of International Paper's stock or places an accurate present value on stock options. The grant date values were determined based upon the following assumptions:

	ORIGINAL(3)	REPLACEMENT(4)
Expected volatility	22.18%	22.18%
Risk-free rate of return	5.45%	6.38%
Dividend yield	2.72%	2.68%
Expected term (years)	4.74	2.97

The table below sets out information on options exercised and options outstanding:

AGGREGATED OPTION EXERCISES IN 1996
AND DECEMBER 31, 1996 OPTION VALUES

(A)	(B)	(C)		(D)	(E)	(F)	(G)
				NUMBER OF UNEXERCISED OPTIONS AT 12/31/96 (#)(5)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/96($)(5)	
	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED ($)					
NAME AND POSITION	(#)(1)	AGGREGATE (1)	ANNUALIZED (2)	UNRESTRICTED	RESTRICTED (3)	UNRESTRICTED (4)	RESTRICTED (3)(4)
John T. Dillon as Chief Executive Officer	0	$ 0	$ 0	79,300	77,737	$ 590,531	$ 125,625
James P. Melican as Executive Vice President	7,492	$ 18,262	$ 12,893	69,400	61,600	$ 177,803	$ 243,513
C. Wesley Smith as Executive Vice President	12,000	$ 112,000	$ 31,243	37,800	61,400	$ 64,500	$ 229,713
David W. Oskin as Executive Vice President	39,652	$ 586,096	$ 85,140	52,200	46,600	$ 102,043	$ 164,400
Milan J. Turk as Executive Vice President	0	$ 0	$ 0	22,800	43,200	$ 57,950	$ 159,300
John A. Georges as Chief Executive Officer (retired 03/31/96)	452,030	$5,475,386	$ 814,569	749,500	0	$3,254,133	$ 0

(1) The number of incremental shares retained on exercises by Mr. Georges was 87,601 shares.

(2) Represents the aggregate incremental value realized divided by the number of years the option was held prior to exercise.

(3) All options are exercisable under the plan upon grant; however, columns (e) and (g) indicate the number and value of options, the underlying shares of which, while exercisable, cannot be sold or are otherwise restricted.

(4) Total value of options (market value minus exercise price) based on fair market value of Company stock of $40.50, as of December 31, 1996.

(5) Options granted as part of the tandem awards of restricted stock/options made as continuity awards are not included except for Mr. Georges; these awards are counted as restricted stock awards and holdings. In the first quarter of 1996, Mr. Georges excerised 400,000 tandem options resulting in the cancellation of 80,000 restricted shares. A replacement option was issued to Mr. Georges as exercise was prior to retirement.

RETIREMENT BENEFITS

The following table shows the total estimated annual pension benefits payable under the Company's qualified and supplementary retirement plans upon retirement at age 65, calculated on a straight life annuity basis and reduced by a Social Security offset:

COMBINED RETIREMENT PLANS TABLE OF ESTIMATED BENEFITS

PENSIONABLE REMUNERATION	CREDITABLE YEARS OF SERVICE					
	5	10	15	20	25	30
$ 400,000	$100,000	$125,129	$ 187,693	$ 192,506	$ 192,506	$ 192,906
$ 600,000	$150,000	$190,129	$ 285,193	$ 292,506	$ 292,506	$ 293,106
$ 800,000	$200,000	$255,129	$ 382,693	$ 392,506	$ 392,506	$ 393,306
$1,000,000	$250,000	$320,129	$ 480,193	$ 492,506	$ 492,506	$ 493,506
$1,500,000	$375,000	$482,629	$ 723,943	$ 742,506	$ 742,506	$ 744,006

"Pensionable Remuneration" for purposes of the table above means salary, bonus and compensation deferred under the Unfunded Savings Plan or awards deferred under the MIP.

Retirement benefits are payable under one or more of the following plans: a qualified plan covering all salaried employees which provides pension benefits based on final average earnings; a supplementary plan which provides a make-up of qualified plan benefits limited by the imposition of statutory Code limitations; and a supplementary plan covering designated senior managers which provides supplemental benefits to the qualified plan. At December 31, 1996, the number of creditable years of service and the currently applicable average pensionable remuneration under the retirement plans for Mr. Dillon, 29.92 years and $1,090,417; for Mr. Melican, 12.92 years and $856,667; for Mr. Smith, 16.33 years and $790,750; for Mr. Oskin, 21.25 years and $599,833; and for Mr. Turk, 6.58 years and $553,750.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors among others, to file reports of ownership and changes in ownership of such securities with the Securities Exchange Commission and the New York Stock Exchange. Copies of these reports must also be furnished to the Company. Based solely upon a review of the copies of the forms filed under Section 16(a) and furnished to the Company, or written representations from reporting persons, the Company believes that all filing requirements applicable to its executive officers and directors were complied with during 1996, except that Robert M. Byrnes, an executive officer, inadvertently failed to file a report reflecting his sale of stock in October 1996 but made a late filing of such report immediately upon discovery of the oversight.

COMPENSATION OF DIRECTORS

The compensation of each non-employee director of the Company is a retainer fee of $36,000 per year plus fees of $1,200 for each Board and Committee or other meeting attended. Directors may elect to defer receipt of all or part of their remuneration until a later date under a deferred compensation plan, at which time the director will be paid in cash equal to (1) the cash amount deferred plus interest at the higher of 6% per annum or the yield of U.S. Treasury bills or (2) the value at the time of payment of units equivalent to the value of Company common stock credited to the director's account at the time of each deferral, plus dividend equivalents. In addition, there is a compulsory portion to the Deferred Compensation Plan. Under this, each non-employee director, 54 years or older, is credited with 300 common stock equivalent units each year which remain in the Plan until death, disability or retirement. The common stock units held in each non-employee director's account are credited with dividend equivalents. Upon retirement, the

amounts will be paid in cash. Employees of the Company who are also directors receive no compensation for services as a director or for attendance at Board or Committee meetings.

In addition, under the Non-Employee Directors Restricted Stock Plan, awards of 1,800 shares of common stock are made upon the election or re-election of a director to a full three-year term, or the appointment of a non-employee director to fill an unexpired term. Awards made in 1996 were 1,800 shares each for Class II directors and a pro-rata award of 1,200 shares to one director elected to the remaining term of his Class. Directors receive dividend payments represented by the shares awarded under the Restricted Stock Plan at $0.25 per share per quarter.

Further, three of the non-employee directors of the Company serve as directors of IP Forest Resources Company ("IPFR"), a wholly-owned subsidiary which acts as the managing general partner of IP Timberlands, Ltd., a New York Stock Exchange-listed limited partnership. As such, each of the three non-employee directors receives a retainer fee of $7,000 per year plus a fee of $1,200 for each IPFR Board and Committee meeting attended. These fees are paid by IPFR. There were eight meetings of the Board in 1996 and five Committee meetings.

As part of its overall program to promote charitable giving to education and assist corporate recruiting and research efforts, the Company has established a directors' planned gift program funded by life insurance polices on all directors. Upon the death of an individual director, the Company will donate $1 million over a ten-year period to one or more qualifying universities or colleges recommended by the individual director and the Company will be reimbursed by life insurance proceeds. Individual directors derive no financial benefit from this program since charitable deductions accrue solely to the Company. The program does not result in any material cost to the Company.

INDEMNIFICATION INSURANCE AND CONTRACTS

The Company provides liability insurance for the Company's directors and all elected officers, as well as contractual arrangements with directors and certain officers of the Company, agreeing to compensate them for costs and liabilities incurred in actions brought against them while acting as directors or officers. On June 15, 1996, the Company amended its policy with Federal Insurance Company and purchased a policy with National Union Insurance Company at a current annual premium cost aggregating $525,825, such policies expiring on June 15, 1997. No monies have been paid under such policies by the carrier or by the Company under the contractual arrangements.

TERMINATION AGREEMENTS

The Company has agreements with members of the executive officer group, providing for payments and other benefits if there is a change of control of the Company and the officer's employment is terminated (i) by the Company or its successor, other than for cause, disability or retirement, or (ii) by the officer if the chief executive officer of the Company ceases to hold that position for reasons other than cause, retirement or disability, or if the officer determines that by reason of adverse changes in, among other things, the officer's authority, compensation, duties, office location or responsibilities, the officer is unable to perform the duties and responsibilities of the position the officer held immediately prior to the change in control. These agreements provide that if the officer's employment terminates under the circumstances described above, the officer will receive: (a) continuation of medical and dental insurance coverage until age 65 or eligibility to join a comparable plan sponsored by another employer; (b) retiree medical coverage comparable to the Company's pre-change of control retiree medical plan; (c) a lump-sum payment equal to (i) his annual salary at termination together with his most recent short-term annual incentive compensation payment during the year preceding termination, multiplied by the smaller of the number "three" or the number of years between the termination date and the date he reaches age 65 and (ii) an amount necessary to offset any special federal excise tax on all payments received under the termination agreement.

In addition to the foregoing provisions, Mr. Dillon's agreement can be triggered by a voluntary termination at any time within 18 months of the change in control. The agreement provides him with the above benefits as well as (a) payment of vested benefits under the pension plan which entitlement shall include payments made under the agreement which constitute "compensation" under the pension plan; (b) a lump-sum payment equal to the difference between (i) the actuarial value on termination date of accrued vested pension benefits and (ii) the actuarial value on termination date of what accrued pension benefits would have been if the period and payments set out in (c)(i) and (c)(ii) below were recognized under the pension plan; (c) a lump-sum payment equal to (i) his annual salary at termination, (ii) the average of his short-term incentive compensation award for three years preceding termination and (iii) the value of his average earned award under the Performance Share Plan (PSP) for three years preceding termination, multiplied by the number "four"; (d) a lump-sum payment equal to the value of any deferred incentive compensation or PSP awards and unvested Company matching contributions under the Salaried Savings Plan; (e) stock options equal to the average number of options awarded during the three years preceding termination, multiplied by the number "four", plus the extension of each option held until the end of the normal term of such option if he had not left the Company.

The Board requires unanimous approval at a meeting of the Management Development and Compensation Committee, composed solely of non-employee directors, and majority approval by the Board before any termination agreement such as those described above is amended or entered into. The potential cost of satisfying the payments called for under the above-described termination agreements, prior to tax "gross up", if there had been a change in control and all of the members of the executive officer group described in the Summary Compensation Table had been terminated on December 31, 1996, would have been approximately $23,000,000.

In addition to the foregoing, the Long-Term Incentive Compensation Plan contains provisions that release restrictions from stock awards and stock options for all members of the group if there is a change of control of the Company. Also, the Supplemental Retirement Plan for Senior Managers provides that if a change of control of the Company occurs, pension benefits will vest immediately and the minimum benefit will be increased from 25% to 50% of pensionable remuneration.

The Company has authorized a grantor trust under Sections 671 through 677 of the Code in connection with the Company's benefit plans and termination agreements. Under the grantor trust, the trustee will pay the beneficiaries of the trust the amounts to which they are entitled under such plans and agreements subject to claims of the Company's creditors.

EXHIBIT A

ARTICLE 1

STOCKHOLDERS' MEETINGS

SECTION 7. No business may be transacted at an annual meeting of Stockholders of the Corporation, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors or any duly authorized committee thereof, (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors or any duly authorized committee thereof or (c) otherwise properly brought before the annual meeting by any Stockholder of the Corporation (i) who is a Stockholder of record on the date of the giving of the notice provided for in this Section and on the record date for the determination of Stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section.

Business shall be brought before the annual meeting by any Stockholder of the Corporation by notice in writing delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation at the principal executive offices of the Corporation, and received by such person not less than sixty (60) days nor more than ninety (90) days prior to any meeting of the Stockholders; provided, however, that if less than seventy (70) days' notice or prior public disclosure of the meeting is given or made to the Stockholders, such proposal shall have been received by the Secretary of the Corporation not later than the close of business on the tenth (10th) day following the day on which the notice of meeting was mailed or public disclosure was made.

A Stockholder's notice to the Secretary shall set forth as to each matter such Stockholder proposes to bring before the meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such Stockholder, (iii) the number of shares of stock of the Corporation which are owned beneficially or of record by such Stockholder, (iv) a description of all arrangements or understandings between such Stockholder and any other person or persons (including their names) in connection with the proposal of such business by such Stockholder and any material interest of such Stockholder in such business and (v) a representation that such Stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of Stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section, provided, however, that once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section shall be deemed to preclude discussion by any Stockholder of any such business. The Presiding Officer of the meeting may, if the facts warrant, determine and declare to the meeting that business was not properly brought before the annual meeting in accordance with the foregoing procedure, and if such person should so determine, he or she shall so declare to the meeting and such business shall not be transacted.

Nothing in this Section 7 shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act and to put before such meeting any proposals so included in the Corporation's proxy statement at his or her request.

For purposes of this Section 7 and Article II, Section 9, "public disclosure" shall mean disclosure in a communication sent by first class mail to Stockholders, in a press release reported by the Dow Jones News Service, Reuters Information Services, Inc., Associated Press or comparable national news service or in a document filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15 (d) of the Exchange Act.

EXHIBIT B

ARTICLE II

BOARD OF DIRECTORS

WORDS AND PHRASES INDICATED BY ITALICS ARE ADDED AND WORDS AND PHRASES INDICATED BY [BRACKETS] ARE OMITTED FROM FORMER SECTION 9

SECTION 9. Nominations. Nominations for election to the Board of Directors of the Corporation at a meeting of the Stockholders may be made (a) by the Board, or on behalf of the Board by any nominating committee appointed by the Board, or
(b) by any Stockholder of the Corporation [entitled to vote for the election of Directors at such meeting] (i) WHO IS A STOCKHOLDER OF RECORD ON THE DATE OF THE GIVING OF THE NOTICE PROVIDED FOR IN THIS SECTION AND ON THE RECORD DATE FOR THE DETERMINATION OF STOCKHOLDERS ENTITLED TO VOTE AT SUCH MEETING AND (II) WHO COMPLIES WITH THE NOTICE PROCEDURES SET FORTH IN THIS SECTION.

[Such] STOCKHOLDER nominations [other than those made by or on behalf of the Board] shall be made by notice in writing delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation AT THE PRINCIPAL EXECUTIVE OFFICES OF THE CORPORATION, and received by SUCH PERSON not less than [thirty (30)] SIXTY (60) days nor more than [sixty (60)] NINETY (90) days prior to any meeting of the Stockholders called for the election of Directors; provided, however, that if less than [thirty-five (35)] SEVENTY (70) days notice OR PRIOR PUBLIC DISCLOSURE of the meeting is given OR MADE to the Stockholders, such nomination shall have been [mailed or deliveries to] RECEIVED BY the Secretary of the Corporation not later than the close of business on the [seventh (7th)] TENTH (10TH) day following the day on which the notice of meeting was mailed OR PUBLIC DISCLOSURE WAS MADE.

Such notice shall set forth (A) as to each proposed nominee who is not an incumbent Director (i) the name, age, business address and residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee, and (iv) any other information concerning the nominee that must be disclosed of nominees in proxy solicitations pursuant to SECTION 14 of the Securities Exchange Act of 1934, AS AMENDED FROM TIME TO TIME (THE "EXCHANGE ACT") AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER AND (B) AS TO THE STOCKHOLDER GIVING THE NOTICE (I) THE NAME AND RECORD ADDRESS OF SUCH STOCKHOLDER, (II) THE NUMBER OF SHARES OF STOCK OF THE CORPORATION WHICH ARE BENEFICIALLY OWNED BY SUCH STOCKHOLDER, (III) A DESCRIPTION OF ALL ARRANGEMENTS OR UNDERSTANDINGS BETWEEN SUCH STOCKHOLDER AND EACH PROPOSED NOMINEE AND ANY OTHER PERSON OR PERSONS (INCLUDING THEIR NAMES) PURSUANT TO WHICH THE NOMINATION(S) ARE TO BE MADE BY SUCH STOCKHOLDER, (IV) A REPRESENTATION THAT SUCH STOCKHOLDER INTENDS TO APPEAR IN PERSON OR BY PROXY AT THE ANNUAL MEETING TO NOMINATE THE PERSONS NAMED IN ITS NOTICE AND (V) ANY OTHER INFORMATION RELATING TO SUCH STOCKHOLDER THAT WOULD BE REQUIRED TO BE DISCLOSED IN A PROXY STATEMENT OR OTHER FILING REQUIRED TO BE MADE IN CONNECTION WITH SOLICITATIONS OF PROXIES FOR ELECTION OF DIRECTORS PURSUANT TO SECTION 14 OF THE EXCHANGE ACT AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER. Such notice shall be accompanied by the written consent of each proposed nominee to serve as a Director of the Corporation. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth herein.

The Presiding Officer of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if [he] SUCH PERSON should so determine HE OR SHE, shall so declare to the meeting and the defective nomination shall be disregarded.

[LOGO]

TWO MANHATTANVILLE ROAD
PURCHASE, NEW YORK 10577

Printed on Hammermill Papers, Accent Opaque 40 lbs.

Hammermill Papers is a division of International Paper.

Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated February 7, 1997, included and incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 2-57646, 2-86945, 33-11117, 33-32527, 33-38133, 33-44855, 33-48167, 33-50438, 33-51447, 33-52945, 33-58099, 33-61335, 33-62283, 333-00843, 333-01667, and 333-02137.

ARTHUR ANDERSEN LLP

New York, New York,
March 26, 1997.

EXHIBIT 24

POWER OF ATTORNEY

Know all Men By These Presents, that the undersigned hereby constitutes and appoints JAMES W. GUEDRY, WILLIAM B. LYTTON and JAMES P. MELICAN and each of them (with full power to each of them to act alone) their true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for them on their behalf and in their name, place and stead, in any and all capacities, to sign, execute and affix their seal thereto and file the Annual Report of International Paper Company on Form 10-K (or any other appropriate form), under the Securities Exchange Act of 1934, as amended, together with any and all amendments to such Annual Report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same, for all intents and purposes, and that the undersigned hereby ratify and confirm all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Executed on this 11th day of March, 1997, at Purchase, New York.

NAME	TITLE
/s/ C. Wesley Smith ---------- (C. Wesley Smith)	Executive Vice President and Director
/s/ Willard C. Butcher ---------- (Willard C. Butcher)	Director
/s/ Robert J. Eaton ---------- (Robert J. Eaton)	Director
/s/ Stanley C. Gault ---------- (Stanley C. Gault)	Director
/s/ John A. Georges ---------- (John A. Georges)	Director
/s/ Thomas C. Graham ---------- (Thomas C. Graham)	Director
/s/ John R. Kennedy ---------- (John R. Kennedy)	Director
/s/ Donald F. McHenry ---------- (Donald F. McHenry)	Director
/s/ Patrick F. Noonan ---------- (Patrick F. Noonan)	Director
/s/ Jane C. Pfeiffer ---------- (Jane C. Pfeiffer)	Director
/s/ Edmund T. Pratt, Jr. ---------- (Edmund T. Pratt, Jr.)	Director
/s/ Charles R. Shoemate ---------- (Charles R. Shoemate)	Director
/s/ Roger B. Smith ---------- (Roger B. Smith)	Director

ARTICLE 5

MULTIPLIER: 1,000,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	DEC 31 1996
CASH	352
SECURITIES	0
RECEIVABLES	2,654
ALLOWANCES	(101)
INVENTORY	2,840
CURRENT ASSETS	253
PP&E	22,731
DEPRECIATION	(9,514)
TOTAL ASSETS	28,252
CURRENT LIABILITIES	5,894
BONDS	6,691
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	301
OTHER SE	9,043
TOTAL LIABILITY AND EQUITY	28,252
SALES	20,143
TOTAL REVENUES	20,143
CGS	14,901
TOTAL COSTS	19,403
OTHER EXPENSES	0
LOSS PROVISION	22
INTEREST EXPENSE	530
INCOME PRETAX	802
INCOME TAX	330
INCOME CONTINUING	303
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	303
EPS PRIMARY	1.04
EPS DILUTED	1.04

End of Filing