

INTERNATIONAL PAPER CO /NEW/

Form 10-Q

November 02, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From to

Commission File Number 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York

13-0872805

(State or other jurisdiction of
incorporation of organization)

(I.R.S. Employer
Identification No.)

6400 Poplar Avenue, Memphis, TN 38197

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (901) 419-7000

Indicate by check mark whether the registrant (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 registrant 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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, par value \$1.00 per share, as of October 26, 2018 was 405,028,470.

Table of Contents

INDEX

| | PAGE NO. |
|---|-----------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | |
| Condensed Consolidated Statement of Operations - Three Months and Nine Months Ended September 30, 2018 and 2017 | <u>1</u> |
| Condensed Consolidated Statement of Comprehensive Income - Three Months and Nine Months Ended September 30, 2018 and 2017 | <u>2</u> |
| Condensed Consolidated Balance Sheet - September 30, 2018 and December 31, 2017 | <u>3</u> |
| Condensed Consolidated Statement of Cash Flows - Nine Months Ended September 30, 2018 and 2017 | <u>4</u> |
| <u>Condensed Notes to Consolidated Financial Statements</u> | <u>5</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>28</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>45</u> |
| <u>Item 4. Controls and Procedures</u> | <u>45</u> |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>46</u> |
| <u>Item 1A. Risk Factors</u> | <u>46</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>46</u> |
| <u>Item 6. Exhibits</u> | <u>47</u> |
| <u>Signatures</u> | <u>48</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERNATIONAL PAPER COMPANY

Condensed Consolidated Statement of Operations

(Unaudited)

(In millions, except per share amounts)

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|---|--|----------|---|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net Sales | \$5,901 | \$5,517 | \$17,355 | \$16,032 |
| Costs and Expenses | | | | |
| Cost of products sold | 3,887 | 3,713 | 11,757 | 11,100 |
| Selling and administrative expenses | 405 | 401 | 1,277 | 1,187 |
| Depreciation, amortization and cost of timber harvested | 335 | 350 | 990 | 1,004 |
| Distribution expenses | 397 | 354 | 1,166 | 1,061 |
| Taxes other than payroll and income taxes | 44 | 41 | 130 | 124 |
| Restructuring and other charges | — | — | 48 | (16) |
| Net (gains) losses on sales and impairments of businesses | 122 | — | 122 | 9 |
| Litigation settlement | — | — | — | 354 |
| Net bargain purchase gain on acquisition of business | — | — | — | (6) |
| Interest expense, net | 133 | 152 | 401 | 431 |
| Non-operating pension expense | 25 | 49 | 65 | 133 |
| Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings | 553 | 457 | 1,399 | 651 |
| Income tax provision (benefit) | 83 | 136 | 302 | 122 |
| Equity earnings (loss), net of taxes | 92 | 45 | 257 | 113 |
| Earnings (Loss) From Continuing Operations | 562 | 366 | 1,354 | 642 |
| Discontinued operations, net of taxes | — | 29 | 345 | 42 |
| Net Earnings (Loss) | 562 | 395 | 1,699 | 684 |
| Less: Net earnings (loss) attributable to noncontrolling interests | — | — | 3 | — |
| Net Earnings (Loss) Attributable to International Paper Company | \$562 | \$395 | \$1,696 | \$684 |
| Basic Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders | | | | |
| Earnings (loss) from continuing operations | \$1.38 | \$0.89 | \$3.28 | \$1.55 |
| Discontinued operations, net of taxes | — | 0.07 | 0.84 | 0.10 |
| Net earnings (loss) | \$1.38 | \$0.96 | \$4.12 | \$1.65 |
| Diluted Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders | | | | |
| Earnings (loss) from continuing operations | \$1.37 | \$0.88 | \$3.25 | \$1.54 |
| Discontinued operations, net of taxes | — | 0.07 | 0.83 | \$0.10 |
| Net earnings (loss) | \$1.37 | \$0.95 | \$4.08 | \$1.64 |
| Average Shares of Common Stock Outstanding – assuming dilution | 411.4 | 417.4 | 416.3 | 417.4 |
| Cash Dividends Per Common Share | \$0.4750 | \$0.4625 | \$1.4250 | \$1.3875 |
| Amounts Attributable to International Paper Company Common Shareholders | | | | |
| Earnings (loss) from continuing operations | \$562 | \$366 | \$1,351 | \$642 |
| Discontinued operations, net of taxes | — | 29 | 345 | 42 |
| Net earnings (loss) | \$562 | \$395 | \$1,696 | \$684 |

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

1

Table of Contents

INTERNATIONAL PAPER COMPANY

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(In millions)

| | Three Months Ended September 30, 2018 | | 2017 | | Nine Months Ended September 30, 2018 | | 2017 | |
|--|--|-------|---------|---------|---|--|------|--|
| Net Earnings (Loss) | \$562 | \$395 | \$1,699 | \$684 | | | | |
| Other Comprehensive Income (Loss), Net of Tax: | | | | | | | | |
| Amortization of pension and post-retirement prior service costs and net loss: | | | | | | | | |
| U.S. plans | 76 | 59 | 227 | 176 | | | | |
| Pension and postretirement liability adjustments: | | | | | | | | |
| Non-U.S. plans | — | — | — | 1 | | | | |
| Change in cumulative foreign currency translation adjustment | (87 |) 100 | (467 |) 234 | | | | |
| Net gains/losses on cash flow hedging derivatives: | | | | | | | | |
| Net gains (losses) arising during the period | 1 | 1 | (20 |) 9 | | | | |
| Reclassification adjustment for (gains) losses included in net earnings (loss) | 2 | (2 |) 2 | (6 |) | | | |
| Total Other Comprehensive Income (Loss), Net of Tax | (8 |) 158 | (258 |) 414 | | | | |
| Comprehensive Income (Loss) | 554 | 553 | 1,441 | 1,098 | | | | |
| Net (earnings) loss attributable to noncontrolling interests | — | — | (3 |) — | | | | |
| Other comprehensive (income) loss attributable to noncontrolling interests | 2 | 1 | 4 | (1 |) | | | |
| Comprehensive Income (Loss) Attributable to International Paper Company | \$556 | \$554 | \$1,442 | \$1,097 | | | | |

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

Table of Contents

INTERNATIONAL PAPER COMPANY
Condensed Consolidated Balance Sheet
(In millions)

| | September 30, 2018 (unaudited) | December 31, 2017 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and temporary investments | \$ 1,026 | \$ 1,018 |
| Accounts and notes receivable, net | 3,580 | 3,287 |
| Contract assets | 383 | — |
| Inventories | 2,130 | 2,313 |
| Assets held for sale | — | 1,377 |
| Other current assets | 199 | 282 |
| Total Current Assets | 7,318 | 8,277 |
| Plants, Properties and Equipment, net | 13,088 | 13,265 |
| Forestlands | 388 | 448 |
| Investments | 1,615 | 390 |
| Financial Assets of Special Purpose Entities (Note 15) | 7,065 | 7,051 |
| Goodwill | 3,371 | 3,411 |
| Deferred Charges and Other Assets | 958 | 1,061 |
| Total Assets | \$ 33,803 | \$ 33,903 |
| Liabilities and Equity | | |
| Current Liabilities | | |
| Notes payable and current maturities of long-term debt | \$ 555 | \$ 311 |
| Accounts payable | 2,510 | 2,458 |
| Accrued payroll and benefits | 484 | 485 |
| Liabilities held for sale | — | 805 |
| Other accrued liabilities | 1,054 | 1,043 |
| Total Current Liabilities | 4,603 | 5,102 |
| Long-Term Debt | 10,700 | 10,846 |
| Nonrecourse Financial Liabilities of Special Purpose Entities (Note 15) | 6,296 | 6,291 |
| Deferred Income Taxes | 2,512 | 2,291 |
| Pension Benefit Obligation | 1,785 | 1,939 |
| Postretirement and Postemployment Benefit Obligation | 305 | 326 |
| Other Liabilities | 544 | 567 |
| Equity | | |
| Common stock, \$1 par value, 2018 – 448.9 shares and 2017 – 448.9 shares | 449 | 449 |
| Paid-in capital | 6,256 | 6,206 |
| Retained earnings | 7,353 | 6,180 |
| Accumulated other comprehensive loss | (4,887) | (4,633) |
| | 9,171 | 8,202 |
| Less: Common stock held in treasury, at cost, 2018 – 43.9 shares and 2017 – 36.0 shares | 2,131 | 1,680 |
| Total International Paper Shareholders' Equity | 7,040 | 6,522 |
| Noncontrolling interests | 18 | 19 |
| Total Equity | 7,058 | 6,541 |
| Total Liabilities and Equity | \$ 33,803 | \$ 33,903 |

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

Table of Contents

INTERNATIONAL PAPER COMPANY

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In millions)

| | Nine Months Ended September 30, 2018 2017 | |
|--|---|---------|
| Operating Activities | | |
| Net earnings (loss) | \$1,699 | \$684 |
| Depreciation, amortization and cost of timber harvested | 990 | 1,075 |
| Deferred income tax provision (benefit), net | 163 | 295 |
| Restructuring and other charges | 48 | (16) |
| Pension plan contributions | — | (1,250) |
| Net gain on transfer of North American Consumer Packaging business | (488) | — |
| Net bargain purchase gain on acquisition of business | — | (6) |
| Net (gains) losses on sales and impairments of businesses | 122 | 9 |
| Equity method dividends received | 130 | 129 |
| Equity (earnings) loss, net | (257) | (113) |
| Periodic pension expense, net | 172 | 237 |
| Other, net | 75 | 92 |
| Changes in current assets and liabilities | | |
| Accounts and notes receivable | (441) | (293) |
| Contract assets | (20) | — |
| Inventories | (120) | (70) |
| Accounts payable and accrued liabilities | 301 | 5 |
| Interest payable | (33) | (11) |
| Other | 64 | (198) |
| Cash Provided By (Used For) Operations | 2,405 | 569 |
| Investment Activities | | |
| Invested in capital projects | (1,286) | (935) |
| Acquisitions, net of cash acquired | — | (45) |
| Net settlement on transfer of North American Consumer Packaging business | (40) | — |
| Proceeds from divestitures, net of cash divested | — | 4 |
| Proceeds from sale of fixed assets | 12 | 22 |
| Other | 4 | (54) |
| Cash Provided By (Used For) Investment Activities | (1,310) | (1,008) |
| Financing Activities | | |
| Repurchases of common stock and payments of restricted stock tax withholding | (532) | (46) |
| Issuance of debt | 349 | 1,366 |
| Reduction of debt | (242) | (369) |
| Change in book overdrafts | (33) | 5 |
| Dividends paid | (588) | (573) |
| Debt tender premiums paid | — | (1) |
| Other | — | (2) |
| Cash Provided By (Used For) Financing Activities | (1,046) | 380 |
| Effect of Exchange Rate Changes on Cash | (41) | 24 |
| Change in Cash and Temporary Investments | 8 | (35) |
| Cash and Temporary Investments | | |

| | | |
|---------------------|---------|-------|
| Beginning of period | 1,018 | 1,033 |
| End of period | \$1,026 | \$998 |

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

Table of Contents

INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States and in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments that are necessary for the fair presentation of International Paper Company's (International Paper's, the Company's or our) financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed herein, such adjustments are of a normal, recurring nature. Results for the first nine months of the year may not necessarily be indicative of full year results. It is suggested that these condensed financial statements be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which have previously been filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING DEVELOPMENTS

Intangibles

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this guidance. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This guidance eliminates the requirement to calculate the implied fair value of goodwill under Step 2 of today's goodwill impairment test to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. This guidance should be applied prospectively and is effective for annual reporting periods beginning after December 15, 2019, for any impairment test performed in 2020. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently evaluating the provisions of this guidance; however, we do not anticipate adoption having a material impact on the financial statements.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." The new guidance modifies disclosure requirements related to fair value measurement. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those years. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance gives entities the option to reclassify stranded tax effects caused by the newly-enacted U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The objective of this new guidance is the improvement of the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments in this guidance make certain targeted improvements to simplify the

Table of Contents

application of the hedge accounting guidance in current GAAP. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company early adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Retirement Benefits

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." This guidance adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. This guidance is effective for annual reporting periods beginning after December 15, 2020. Early adoption is permitted. This guidance should be applied on a retrospective basis to all periods presented. The Company is currently evaluating the provisions of this guidance.

The Company adopted the provision of ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," on January 1, 2018.

Under this new guidance, employers present the service costs component of the net periodic benefit cost in the same income statement line

items as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component is eligible for capitalization in assets. Employers present the other components separately from the line items that includes the service cost and outside of any subtotal of operating income. In addition, disclosure of the lines used to present the other components of net periodic benefit cost are required if the components are not presented separately in the income statement. The following table details the impact of the retrospective adoption of this standard on the three months and nine months ended September 30, 2017, reported in the accompanying condensed consolidated statement of operations. The retrospective adoption had no impact on Net earnings (loss).

Condensed Consolidated Statement of Operations

| In millions | Three Months Ended September 30, 2017 | | |
|-------------------------------------|---------------------------------------|--|------------|
| | Previously Reported | Impact of Adoption Increase/(Decrease) | As Revised |
| Cost of products sold | \$3,756 | \$ (43) | \$3,713 |
| Selling and administrative expenses | 407 | (6) | 401 |
| Non-operating pension expense | — | 49 | 49 |

| In millions | Nine Months Ended September 30, 2017 | | |
|-------------------------------------|--------------------------------------|--|------------|
| | Previously Reported | Impact of Adoption Increase/(Decrease) | As Revised |
| Cost of products sold | \$11,214 | \$ (114) | \$11,100 |
| Selling and administrative expenses | 1,206 | (19) | 1,187 |
| Non-operating pension expense | — | 133 | 133 |

Business Combinations

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." Under the new guidance, an entity must first determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this

threshold is met, the set of transferred assets and activities is not a business. If this threshold is not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. This guidance was effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. The Company adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This ASU requires companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs rather than defer the income tax effects which is current practice. This new guidance was effective for annual reporting periods beginning after December 15, 2017, and interim periods within

Table of Contents

those years. The guidance requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. The Company adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Stock Compensation

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." This guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under this guidance, entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. This guidance was effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. The Company adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases Topic (842): Leases." This ASU will require most leases to be recognized on the balance sheet which will increase reported assets and liabilities. Lessor accounting will remain substantially similar to current U.S. GAAP. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years, and mandates a modified retrospective transition method for all entities. In July 2018, the FASB issued ASU 2018-11, "Leases Topic (842): Targeted Improvements." This ASU provides companies an option to apply the transition provisions of the new lease standard at its adoption date instead of at the earliest comparative period presented in its financial statements. The Company expects to adopt the new lease guidance using the newly approved transition method. We expect to recognize a liability and corresponding asset associated with in-scope operating and finance leases but are still in the process of determining those amounts and the processes required to account for leasing activity on an ongoing basis.

The Company has formed a global implementation team, including representatives from accounting, tax, legal, global sourcing, information technology, policies and controls and operations. Surveys were developed and utilized to gather initial information regarding existing leases and the various processes that currently exist to procure, track and account for leases globally. The implementation team has selected and begun working with a third-party vendor to implement a lease accounting solution to deliver the accounting and disclosures required under the new lease accounting guidance. Initial data loads are substantially complete and preliminary testing in the system is underway.

Revenue Recognition

On January 1, 2018, the Company adopted the new revenue recognition standard ASC 606, "Revenue from Contracts With Customers," (new revenue standard) and all related amendments, using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of Retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company recorded a net increase to opening Retained earnings of \$73 million as of January 1, 2018, due to the cumulative impact of adopting the new revenue standard, with the impact primarily related to our customized products. The impacts of the adoption of the new revenue standard on the Company's condensed consolidated financial statements were as follows:

Table of Contents

Condensed Consolidated Statement of Operations

| In millions, except per share amounts | Three Months Ended September 30, 2018 | | |
|--|--|--|---|
| | As Reported | Balances Without Adoption of ASC 606 | Impact of Adoption Increase/(Decrease) |
| | | | |
| Net sales | \$5,901 | \$5,898 | \$ 3 |
| Cost of products sold | 3,887 | 3,885 | 2 |
| Distribution expenses | 397 | 396 | 1 |
| Income tax provision (benefit), net | 83 | 83 | — |
| Earnings (loss) from continuing operations | 562 | 562 | — |
| Net earnings (loss) | 562 | 562 | — |
| Earnings per share attributable to International Paper Company Shareholders | | | |
| Basic | \$1.38 | \$1.38 | \$ — |
| Diluted | 1.37 | 1.37 | — |

Condensed Consolidated Statement of Operations

| In millions, except per share amounts | Nine Months Ended September 30, 2018 | | |
|--|---|--|---|
| | As Reported | Balances Without Adoption of ASC 606 | Impact of Adoption Increase/(Decrease) |
| | | | |
| Net sales | \$17,355 | \$17,335 | \$ 20 |
| Cost of products sold | 11,757 | 11,748 | 9 |
| Distribution expenses | 1,166 | 1,163 | 3 |
| Income tax provision (benefit), net | 302 | 300 | 2 |
| Earnings (loss) from continuing operations | 1,354 | 1,348 | 6 |
| Net earnings (loss) | 1,699 | 1,693 | 6 |
| Earnings per share attributable to International Paper Company Shareholders | | | |
| Basic | \$4.12 | \$4.10 | \$ 0.02 |
| Diluted | 4.08 | 4.06 | 0.02 |

Condensed Consolidated Balance Sheet

| In millions, except per share amounts | September 30, 2018 | | |
|---------------------------------------|--------------------|--|---|
| | As Reported | Balances Without Adoption of ASC 606 | Impact of Adoption Increase/(Decrease) |
| | | | |
| Contract assets | \$383 | \$— | \$ 383 |
| Inventories | 2,130 | 2,389 | (259) |
| Other current assets | 199 | 213 | (14) |
| Other accrued liabilities | 1,054 | 1,035 | 19 |

| | | | |
|-----------------------|-------|-------|----|
| Deferred income taxes | 2,512 | 2,500 | 12 |
| Retained earnings | 7,353 | 7,274 | 79 |

Condensed Consolidated Statement of Cash Flows

| In millions, except per share amounts | Nine Months Ended September 30, 2018 | | |
|--|---|--|---|
| | As Reported | Balances Without Adoption of ASC 606 | Impact of Adoption Increase/(Decrease) |
| Net earnings (loss) | \$1,699 | \$1,693 | \$ 6 |
| Deferred income tax provision (benefit), net | 163 | 175 | (12) |
| Contract assets | (20) | — | (20) |
| Inventories | (120) | (128) | 8 |
| Accounts payable and accrued liabilities | 301 | 298 | 3 |
| Other | 64 | 49 | 15 |

Historically, the Company has recognized all of its revenue on a point-in-time basis across its businesses. The trigger for International Paper's point-in-time recognition is when the customer takes title to the goods and assumes the risks and rewards

Table of Contents

for the goods. As such, the adoption of ASC 606 did not have a material impact on the Company's revenue recognition for point-in-time goods. However, across the majority of our businesses, there are certain goods designed to customers' unique specifications, including customer logos and labels (customized goods). Due to the manually intensive process and significant costs that would be required to rework these products, and in many cases contractual restrictions, the Company has determined that these products do not have an alternative future use under ASC 606.

The majority of the customized goods discussed above are covered by non-cancelable purchase orders or customer agreements and the Company has determined that in most cases, it does have an enforceable right to payment for these goods. As such, the Company's adoption of ASC 606 resulted in the acceleration of revenue for customized products without an alternative future use and where the Company has a legally enforceable right to payment for production of products completed to date. The Company now records a contract asset for revenue recognized on our customized products prior to having an unconditional right to payment from the customer, which generally does not occur until title and risk of loss for the products passes to the customer.

NOTE 3 - REVENUE RECOGNITION

Disaggregated Revenue

A geographic disaggregation of revenues across our company segmentation in the following tables provide information to assist in evaluating the nature, timing and uncertainty of revenue and cash flows and how they may be impacted by economic factors.

| In millions | Three Months Ended September 30, 2018 | | | | |
|-------------------------------------|--|-------------------------------|--------------------|---|---------|
| | Industrial Packaging | Global Cellulose Fibers | Printing Papers | Corporate and Inter-segment Sales | Total |
| Primary Geographical Markets (a) | | | | | |
| United States | \$3,394 | \$ 602 | \$482 | \$ 52 | \$4,530 |
| EMEA | 396 | 77 | 328 | (4) | 797 |
| Pacific Rim and Asia | 40 | 35 | 62 | 6 | 143 |
| Americas, other than U.S. | 204 | — | 230 | (3) | 431 |
| Total | \$4,034 | \$ 714 | \$1,102 | \$ 51 | \$5,901 |
| Operating Segments | | | | | |
| North American Industrial Packaging | \$3,653 | \$ — | \$— | \$ — | \$3,653 |
| EMEA Industrial Packaging | 311 | — | — | — | 311 |
| Brazilian Industrial Packaging | 57 | — | — | — | 57 |
| European Coated Paperboard | 87 | — | — | — | 87 |
| Global Cellulose Fibers | — | 714 | — | — | 714 |
| North American Printing Papers | — | — | 492 | — | 492 |
| Brazilian Papers | — | — | 255 | — | 255 |
| European Papers | — | — | 311 | — | 311 |
| Indian Papers | — | — | 47 | — | 47 |
| Intra-segment Eliminations | (74) | — | (3) | — | (77) |
| Corporate & Inter-segment Sales | — | — | — | 51 | 51 |
| Total | \$4,034 | \$ 714 | \$1,102 | \$ 51 | \$5,901 |

(a) Net sales are attributed to countries based on the location of the seller.

Table of Contents

| In millions | Nine Months Ended September 30, 2018 | | | | |
|-------------------------------------|---|-------------------------------|--------------------|-----------------------------|----------|
| | Industrial Packaging | Global Cellulose Fibers | Printing Papers | Corporate & Intersegment | Total |
| Primary Geographical Markets (a) | | | | | |
| United States | \$9,832 | \$ 1,720 | \$1,399 | \$ 163 | \$13,114 |
| EMEA | 1,275 | 222 | 988 | (13) | 2,472 |
| Pacific Rim and Asia | 110 | 140 | 185 | 35 | 470 |
| Americas, other than U.S. | 666 | 1 | 643 | (11) | 1,299 |
| Total | \$11,883 | \$ 2,083 | \$3,215 | \$ 174 | \$17,355 |
| Operating Segments | | | | | |
| North American Industrial Packaging | \$10,604 | \$ — | \$— | \$ — | \$10,604 |
| EMEA Industrial Packaging | 1,017 | — | — | — | 1,017 |
| Brazilian Industrial Packaging | 175 | — | — | — | 175 |
| European Coated Paperboard | 265 | — | — | — | 265 |
| Global Cellulose Fibers | — | 2,083 | — | — | 2,083 |
| North American Printing Papers | — | — | 1,443 | — | 1,443 |
| Brazilian Papers | — | — | 706 | — | 706 |
| European Papers | — | — | 932 | — | 932 |
| Indian Papers | — | — | 150 | — | 150 |
| Intra-segment Eliminations | (178) | — | (16) | — | (194) |
| Corporate & Inter-segment Sales | — | — | — | 174 | 174 |
| Total | \$11,883 | \$ 2,083 | \$3,215 | \$ 174 | \$17,355 |

(a) Net sales are attributed to countries based on the location of the seller.

The nature of the Company's contracts can vary based on the business, customer type and region; however, in all instances it is International Paper's customary business practice to receive a valid order from the customer, in which each parties' rights and related payment terms are clearly identifiable.

Revenue Contract Balances

The opening and closing balances of the Company's contract assets and current contract liabilities are as follows:

| In millions | Contract Assets (Short-Term) | Contract Liabilities (Short-Term) |
|-------------------------------------|------------------------------------|---|
| Beginning Balance - January 1, 2018 | \$ 366 | \$ 53 |
| Ending Balance - September 30, 2018 | 383 | 25 |
| Increase / (Decrease) | \$ 17 | \$ (28) |

A contract asset is created when the Company recognizes revenue on its customized products prior to having an unconditional right to payment from the customer, which generally does not occur until title and risk of loss passes to the customer.

A contract liability is created when customers prepay for goods prior to the Company transferring those goods to the customer. The contract liability is reduced once control of the goods is transferred to the customer. The majority of our customer prepayments are received during the fourth quarter each year for goods that will be transferred to customers over the following twelve months.

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing difference between the Company's performance and the point at which we have an unconditional right to payment or receive pre-payment from the customer, respectively.

Table of Contents

Performance Obligations and Significant Judgments

International Paper's principal business is to manufacture and sell fiber-based packaging, pulp and paper goods. As a general rule, none of our businesses provide equipment installation or other ancillary services outside producing and shipping packaging, pulp and paper goods to customers.

The Company's revenue is primarily derived from fixed consideration; however, we do have contract terms that give rise to variable consideration, primarily cash discounts and volume rebates. International Paper offers early payment discounts to customers across the Company's businesses. The Company estimates the expected cash discounts and other customer refunds based on the historical experience across the Company's portfolio of customers to record reductions in revenue which is consistent with the most likely amount method outlined in ASC 606. Management has concluded that this method is the best estimate of the consideration the Company will be entitled to from its customers.

Contracts or purchase orders with customers could include a single type of product or it could include multiple types/grades of products. Regardless, the contracted price with the customer is agreed to at the individual product level outlined in the customer contracts or purchase orders. The Company does not bundle prices; however, we do negotiate with customers on pricing and rebates for the same products based on a variety of factors (e.g. level of contractual volume, geographical location, etc.). Management has concluded that the prices negotiated with each individual customer are representative of the stand-alone selling price of the product.

Generally, the Company recognizes revenue on a point in time basis when the customer takes title to the goods and assumes the risks and rewards for the goods. For customized goods where the Company has a legally enforceable right to payment for the goods, the Company recognizes revenue over time which in this case, is generally as the goods are produced.

Practical Expedients and Exemptions

As part of our adoption of the new revenue standard, the Company has elected to present all sales taxes on a net basis, account for shipping and handling activities as fulfillment activities, recognize the incremental costs of obtaining a contract as expense when incurred if the amortization period of the asset the Company would recognize is one year or less and not record interest income or interest expense when the difference in timing of control transfer and customer payment is one year or less. The election of these practical expedients results in accounting treatments consistent with our historical accounting policies and therefore, these elections and expedients do not have a material impact on comparability of our financial statements.

NOTE 4 - EQUITY

A summary of the changes in equity for the nine months ended September 30, 2018 and 2017 is provided below:

| | Nine Months Ended | | | | | |
|---------------------------------------|-------------------|---------------|----------------|---------|---------------|----------------|
| | September 30, | | | 2017 | | |
| In millions, except per share amounts | Total | International | Noncontrolling | Total | International | Noncontrolling |
| | Paper | Shareholders' | Interests | Paper | Shareholders' | Interests |
| | Equity | | | Equity | | |
| Balance, January 1 | \$6,522 | \$ 19 | \$6,541 | \$4,341 | \$ 18 | \$4,359 |
| | 73 | — | 73 | — | — | — |

Adoption of ASC 606 revenue from contracts with customers

| | | | | | | | |
|--|---------|----|----|---------|---------|------|------------|
| Issuance of stock for various plans, net | 112 | — | | 112 | 130 | — | 130 |
| Repurchase of stock | (532 |) | — | (532 |) | (46 |) — (46) |
| Common stock dividends (\$1.4250 per share in 2018 and \$1.3875 per share in 2017) | (596 |) | — | (596 |) | (584 |) — (584) |
| Transactions of equity method investees | 19 | — | | 19 | (24 |) | — (24) |
| Comprehensive income (loss) | 1,442 | (1 |) | 1,441 | 1,097 | 1 | 1,098 |
| Ending Balance, September 30 | \$7,040 | \$ | 18 | \$7,058 | \$4,914 | \$ | 19 \$4,933 |

Table of ContentsNOTE 5 - OTHER COMPREHENSIVE INCOME

The following table presents changes in accumulated other comprehensive income (AOCI) for the three months and nine months ended September 30, 2018 and 2017:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|---|--|-----------|---|-----------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Defined Benefit Pension and Postretirement Adjustments | | | | |
| Balance at beginning of period | \$(2,376) | \$(2,954) | \$(2,527) | \$(3,072) |
| Other comprehensive income (loss) before reclassifications | — | — | — | 1 |
| Amounts reclassified from accumulated other comprehensive income | 76 | 59 | 227 | 176 |
| Balance at end of period | (2,300) | (2,895) | (2,300) | (2,895) |
| Change in Cumulative Foreign Currency Translation Adjustments | | | | |
| Balance at beginning of period | (2,489) | (2,155) | (2,111) | (2,287) |
| Other comprehensive income (loss) before reclassifications | (87) | 101 | (469) | 235 |
| Amounts reclassified from accumulated other comprehensive income | — | (1) | 2 | (1) |
| Other comprehensive income (loss) attributable to noncontrolling interest | 2 | 1 | 4 | (1) |
| Balance at end of period | (2,574) | (2,054) | (2,574) | (2,054) |
| Net Gains and Losses on Cash Flow Hedging Derivatives | | | | |
| Balance at beginning of period | (16) | 1 | 5 | (3) |
| Other comprehensive income (loss) before reclassifications | 1 | 1 | (20) | 9 |
| Amounts reclassified from accumulated other comprehensive income | 2 | (2) | 2 | (6) |
| Balance at end of period | (13) | — | (13) | — |
| Total Accumulated Other Comprehensive Income (Loss) at End of Period | \$(4,887) | \$(4,949) | \$(4,887) | \$(4,949) |

The following table presents details of the reclassifications out of AOCI for the three months and nine months ended September 30, 2018 and 2017:

| | Amounts Reclassified from Accumulated Other Comprehensive Income | | | | |
|---|--|--------|---|--------|--|
| In millions: | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | | Location of Amount Reclassified from AOCI |
| Defined benefit pension and postretirement items: | | | | | |
| Prior-service costs | \$(4) | \$(6) | (11) | (19) | (a) Non-operating pension expense |
| Actuarial gains (losses) | (97) | (89) | (291) | (266) | (a) Non-operating pension expense |
| Total pre-tax amount | (101) | (95) | (302) | (285) | |
| Tax (expense) benefit | 25 | 36 | 75 | 109 | |
| Net of tax | (76) | (59) | (227) | (176) | |
| Change in cumulative foreign currency translation adjustments: | | | | | |
| Business acquisitions/divestitures | — | 1 | (2) | 1 | (b) Discontinued operations, net of taxes |

| | | | | |
|-----------------------|---|---|----|-----|
| Tax (expense) benefit | — | — | — | — |
| Net of tax | — | 1 | (2 |) 1 |

Net gains and losses on cash flow hedging derivatives:

| | | | | | |
|--|--------|--------|---------|---------|---------------------------|
| Foreign exchange contracts | (3 |) 3 | (3 |) 8 | (c) Cost of products sold |
| Total pre-tax amount | (3 |) 3 | (3 |) 8 | |
| Tax (expense)/benefit | 1 | (1 |) 1 | (2 |) |
| Net of tax | (2 |) 2 | (2 |) 6 | |
| Total reclassifications for the period | \$(78) | \$(56) | \$(231) | \$(169) | |

Table of Contents

- (a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 18 for additional details).
- (b) Amounts for the three and nine months ended September 30, 2017 were reclassified to Net (gains) losses on sales and impairment of businesses.
- (c) This accumulated other comprehensive income component is included in our derivatives and hedging activities (see Note 17 for additional details).

NOTE 6 - EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding. Diluted earnings per common share are computed assuming that all potentially dilutive securities were converted into common shares. There are no adjustments required to be made to net income for purposes of computing basic and diluted earnings per share. A reconciliation of the amounts included in the computation of basic earnings (loss) per share, and diluted earnings (loss) per share is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|--------|---------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| In millions, except per share amounts | | | | |
| Earnings (loss) from continuing operations attributable to International Paper Company common shareholders | \$562 | \$366 | \$1,351 | \$642 |
| Weighted average common shares outstanding | 407.4 | 412.9 | 411.4 | 412.6 |
| Effect of dilutive securities | | | | |
| Restricted stock performance share plan | 4.0 | 4.5 | 4.9 | 4.8 |
| Weighted average common shares outstanding – assuming dilution | 411.4 | 417.4 | 416.3 | 417.4 |
| Basic earnings (loss) per share from continuing operations | \$1.38 | \$0.89 | \$3.28 | \$1.55 |
| Diluted earnings (loss) per common share from continuing operations | \$1.37 | \$0.88 | \$3.25 | \$1.54 |

NOTE 7 - RESTRUCTURING AND OTHER CHARGES

2018: There were no restructuring charges recorded during the three months ended September 30, 2018.

During the three months ended June 30, 2018, the Company recorded a \$26 million pre-tax charge, in the Industrial Packaging segment, related to approximately \$12 million of severance, \$6 million in accelerated depreciation, \$2 million in accelerated amortization and \$6 million in other charges in conjunction with the optimization of our EMEA Packaging business.

During the three months ended March 31, 2018, the Company recorded a \$22 million pre-tax charge, in the Industrial Packaging segment, primarily related to the severance charges in conjunction with the optimization of our EMEA Packaging business.

The majority of the severance charges recorded year to date are expected to be paid over the remainder of the year.

2017: There were no restructuring charges recorded during the three months ended September 30, 2017.

During the three months ended June 30, 2017, restructuring and other charges totaling a \$16 million benefit before taxes were recorded. This benefit included a \$14 million gain on the sale of the Company's investment in ArborGen and \$2 million of other benefits.

There were no restructuring and other charges recorded during the three months ended March 31, 2017.

NOTE 8 - ACQUISITIONS

Tangier, Morocco Facility

On June 30, 2017, the Company completed the acquisition of Europac's Tangier, Morocco facility, a corrugated packaging facility, for €40 million (approximately \$46 million using the June 30, 2017 exchange rate). After working capital and other post-closing adjustments, final consideration exchanged was €33 million (approximately \$38 million using the June 30, 2017 exchange rate).

Table of Contents

The following table summarizes the final fair value assigned to assets and liabilities acquired as of June 30, 2017:

| In millions | June 30, 2017 |
|--|---------------------|
| Cash and temporary investments | \$ 1 |
| Accounts and notes receivable | 7 |
| Inventory | 3 |
| Plants, properties and equipment | 31 |
| Goodwill | 4 |
| Other intangible assets | 5 |
| Deferred charges and other assets | 4 |
| Total assets acquired | 55 |
| Accounts payable and accrued liabilities | 4 |
| Long-term debt | 11 |
| Other long-term liabilities | 2 |
| Total liabilities assumed | 17 |
| Net assets acquired | \$ 38 |

Pro forma information related to the acquisition of the Europac business has not been included as it is impractical to obtain the information due to the lack of availability of U.S. GAAP financial data and does not have a material effect on the Company's consolidated results of operations.

The Company has accounted for the above acquisition under ASC 805, "Business Combinations" and the results of operations have been included in International Paper's financial statements beginning with the date of acquisition.

NOTE 9 - DIVESTITURES AND IMPAIRMENTS

Discontinued Operations

On January 1, 2018, the Company completed the transfer of its North American Consumer Packaging business, which included its North American Coated Paperboard and Foodservice businesses, to a subsidiary of Graphic Packaging Holding Company in exchange for a 20.5% ownership interest in a subsidiary of Graphic Packaging Holding Company that holds the assets of the combined business. International Paper is accounting for its ownership interest in the combined business under the equity method. The Company determined the fair value of its investment in the combined business and recorded a pre-tax gain of \$516 million (\$385 million, net of tax) on the transfer in the first quarter of 2018, subject to final working capital settlement. During the second quarter of 2018, the Company recorded a pre-tax charge of \$28 million (\$21 million after tax) to adjust the previously recorded gain on the transfer. See Note 11 for further discussion on the Company's investment in a subsidiary of Graphic Packaging Holding Company.

Table of Contents

All historical operating results for North American Consumer Packaging are included in Discontinued operations, net of tax in the accompanying consolidated statement of operations. The following summarizes the major classes of line items comprising Earnings (Loss) Before Income Taxes and Equity Earnings reconciled to Discontinued operations, net of tax, related to the transfer of the North American Consumer Packaging business for all periods presented in the consolidated statement of operations:

| | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2018 | 2017 |
|---|--|---|----------|
| In millions | | | |
| Net Sales | \$ — \$ 397 | \$ — | \$ 1,165 |
| Costs and Expenses | | | |
| Cost of products sold | — 268 | — | 855 |
| Selling and administrative expenses | — 24 | 25 | 69 |
| Depreciation, amortization and cost of timber harvested | — 24 | — | 72 |
| Distribution expenses | — 32 | — | 94 |
| Taxes other than payroll and income taxes | — 3 | — | 8 |
| (Gain) loss on transfer of business | — — | (488) | — |
| Earnings (Loss) Before Income Taxes and Equity Earnings | — 46 | 463 | 67 |
| Income tax provision (benefit) | — 17 | 118 | 25 |
| Discontinued Operations, Net of Taxes | \$ — \$ 29 | \$ 345 | \$ 42 |

Total cash provided by (used for) operations related to the North American Consumer Packaging business of \$(25) million and \$137 million for the nine months ended September 30, 2018 and September 30, 2017 is included in Cash Provided By (Used For) Operations in the consolidated statement of cash flows. Total cash provided by (used for) investing activities related to the North American Consumer Packaging business of \$(40) million and \$(77) million for the nine months ended September 30, 2018 and September 30, 2017, is included in Cash Provided By (Used For) Investing Activities in the consolidated statement of cash flows.

Impairments

During the third quarter of 2018, a determination was made that the current carrying value of the long-lived assets of the Brazil Packaging business exceeded their estimated fair value due to a change in the outlook for the business. Management engaged a third party to assist with determining the fair value of the business and the fixed assets. The fair value of the business was calculated using a probability-weighted approach based on discounted future cash flows, market multiples, and transaction multiples and the fair value of the fixed assets was determined using a market approach. As a result, a pre-tax charge of \$122 million (\$81 million, net of tax) was recorded related to the impairment of an intangible asset and fixed assets. This charge is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations and is included in the results for the Industrial Packaging segment. On October 25, 2018, the Company announced that it was exploring strategic options for its Brazil Packaging business.

NOTE 10 - SUPPLEMENTAL FINANCIAL STATEMENT INFORMATIONTemporary Investments

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost. Temporary investments totaled \$628 million and \$661 million at September 30, 2018 and December 31, 2017,

respectively.

Accounts and Notes Receivable

| In millions | September 30, 2018 | December 31, 2017 |
|-------------------------------------|-----------------------|----------------------|
| Accounts and notes receivable, net: | | |
| Trade | \$ 3,333 | \$ 3,017 |
| Other | 247 | 270 |
| Total | \$ 3,580 | \$ 3,287 |

Table of Contents

The allowance for doubtful accounts was \$81 million and \$73 million at September 30, 2018 and December 31, 2017, respectively.

Inventories

| In millions | September 30, 2018 | December 31, 2017 |
|------------------------------------|-----------------------|----------------------|
| Raw materials | \$ 287 | \$ 274 |
| Finished pulp, paper and packaging | 1,109 | 1,337 |
| Operating supplies | 609 | 615 |
| Other | 125 | 87 |
| Total | \$ 2,130 | \$ 2,313 |

Depreciation

Accumulated depreciation was \$21.0 billion and \$20.5 billion at September 30, 2018 and December 31, 2017, respectively. Depreciation expense was \$315 million and \$317 million for the three months ended September 30, 2018 and 2017, respectively and \$930 million and \$926 million for the nine months ended September 30, 2018 and 2017, respectively.

Interest

Interest payments made during the nine months ended September 30, 2018 and 2017 were \$606 million and \$600 million, respectively.

Amounts related to interest were as follows:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|----------------------------|--|-------|---|-------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Interest expense | \$184 | \$198 | \$547 | \$571 |
| Interest income | 51 | 46 | 146 | 140 |
| Capitalized interest costs | 9 | 6 | 26 | 18 |

Asset Retirement Obligations

The Company had recorded liabilities of \$86 million related to asset retirement obligations at September 30, 2018 and December 31, 2017.

NOTE 11 - EQUITY METHOD INVESTMENTS

The Company accounts for the following investments in affiliated companies under the equity method of accounting.

Graphic Packaging International, LLC

On January 1, 2018, the Company completed the transfer of its North American Consumer Packaging business, which includes its North American Coated Paperboard and Foodservice businesses, to a subsidiary of Graphic Packaging International Partners, LLC (GPIP), a subsidiary of Graphic Packaging Holding Company, in exchange for a 20.5% ownership interest in GPIP. GPIP subsequently transferred the North American Consumer Packaging business to

Graphic Packaging International, LLC (GPI), a wholly-owned subsidiary of GPIIP that holds the assets of the combined business. The Company recorded equity earnings of \$19 million and \$36 million for the three months and nine months ended September 30, 2018, respectively. The Company received cash dividends from GPIIP of \$12 million during the first nine months of 2018. At September 30, 2018, the Company's investment in GPI was \$1.1 billion, which was \$519 million more than the Company's proportionate share of the entity's underlying net assets. The difference primarily relates to the basis difference between the fair value of our investment and the underlying net assets and is generally amortized in equity earnings over a period consistent with the underlying long-lived assets. The Company is party to various agreements with GPI under which it sells fiber and other products to GPI. Sales under these agreements were \$62 million and \$180 million for the three months and nine months ended September 30, 2018, respectively.

Table of Contents

Summarized financial information for GPI is presented in the following tables:

Balance Sheet

| | |
|------------------------|-----------------------|
| In millions | September 30, 2018 |
| Current assets | \$ 1,943 |
| Noncurrent assets | 5,347 |
| Current liabilities | 1,143 |
| Noncurrent liabilities | 3,150 |

Income Statement

| | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2018 |
|-----------------------------------|--|---|
| In millions | | |
| Net sales | \$ 1,530 | \$ 4,515 |
| Gross profit | 256 | 714 |
| Income from continuing operations | 135 | 278 |
| Net income | 135 | 278 |

Ilim Holding S.A.

The Company has a 50% equity interest in Ilim Holding S.A. (Ilim), which has subsidiaries whose primary operations are in Russia. The Company recorded equity earnings (losses), net of taxes, of \$74 million and \$48 million for the three months ended September 30, 2018 and 2017, respectively and \$223 million and \$119 million for the nine months ended September 30, 2018 and 2017, respectively. The Company received cash dividends from the joint venture of \$118 million and \$129 million during the first nine months of 2018 and 2017, respectively. At September 30, 2018 and December 31, 2017, the Company's investment in Ilim was \$440 million and \$338 million, respectively, which was \$153 million and \$154 million, respectively, more than the Company's proportionate share of the joint venture's underlying net assets. The differences primarily relate to currency translation adjustments and the basis difference between the fair value of our investment at acquisition and the underlying net assets. The Company is party to a joint marketing agreement with JSC Ilim Group, a subsidiary of Ilim, under which the Company purchases, markets and sells paper produced by JSC Ilim Group. Purchases under this agreement were \$50 million and \$52 million for the three months ended September 30, 2018 and 2017, respectively, and \$159 million and \$151 million for the nine months ended September 30, 2018 and 2017, respectively.

Summarized financial information for Ilim is presented in the following tables:

Balance Sheet

| | | |
|--------------------------|-----------------------|----------------------|
| In millions | September 30, 2018 | December 31, 2017 |
| Current assets | \$ 741 | \$ 689 |
| Noncurrent assets | 1,702 | 1,696 |
| Current liabilities | 393 | 1,039 |
| Noncurrent liabilities | 1,460 | 972 |
| Noncontrolling interests | 17 | 6 |

Income Statement

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|--|-------|---------------------------------------|---------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$655 | \$523 | \$2,030 | \$1,518 |
| Gross profit | 376 | 252 | 1,152 | 715 |
| Income from continuing operations | 149 | 99 | 454 | 249 |
| Net income | 143 | 95 | 438 | 237 |

Table of ContentsNOTE 12 - GOODWILL AND OTHER INTANGIBLES

Goodwill

The following table presents changes in goodwill balances as allocated to each business segment for the nine-months ended September 30, 2018:

| In millions | Industrial Packaging | Global Cellulose Fibers | Printing Papers | Total |
|------------------------------------|----------------------|-------------------------|-----------------|----------|
| Balance as of January 1, 2018 | | | | |
| Goodwill | \$ 3,382 | \$ 52 | \$2,150 | \$5,584 |
| Accumulated impairment losses (a) | (296) | — | (1,877) | (2,173) |
| | 3,086 | 52 | 273 | 3,411 |
| Currency translation and other (b) | — | — | (38) | (38) |
| Additions/reductions | (2) | (c)— | — | (2) |
| Balance as of September 30, 2018 | | | | |
| Goodwill | 3,380 | 52 | 2,112 | 5,544 |
| Accumulated impairment losses (a) | (296) | — | (1,877) | (2,173) |
| Total | \$ 3,084 | \$ 52 | \$235 | \$3,371 |

(a) Represents accumulated goodwill impairment charges since the adoption of ASC 350, "Intangibles-Goodwill and Other" in 2002.

(b) Represents the effects of foreign currency translations and reclassifications.

(c) Reflects a reduction from tax benefits generated by the deduction of goodwill amortization for tax purposes in the US.

Other Intangibles

Identifiable intangible assets comprised the following:

| In millions | September 30, 2018 | | | December 31, 2017 | | |
|--|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------|-----------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Intangible Assets | Gross Carrying Amount | Accumulated Amortization | Net Intangible Assets |
| Customer relationships and lists | \$540 | \$ 238 | \$ 302 | \$610 | \$ 247 | \$ 363 |
| Non-compete agreements | 65 | 65 | — | 72 | 72 | — |
| Tradenames, patents and trademarks, and developed technology | 173 | 85 | 88 | 172 | 72 | 100 |
| Land and water rights | 8 | 2 | 6 | 8 | 2 | 6 |
| Software | 27 | 25 | 2 | 24 | 23 | 1 |
| Other | 36 | 28 | 8 | 38 | 26 | 12 |
| Total | \$849 | \$ 443 | \$ 406 | \$924 | \$ 442 | \$ 482 |

The Company recognized the following amounts as amortization expense related to intangible assets:

| In millions | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|-------------|---------------------------------------|------|--------------------------------------|------|
| | 2018 | 2017 | 2018 | 2017 |

Amortization expense related to intangible assets \$ 15 \$ 27 \$ 44 \$ 60

NOTE 13 - INCOME TAXES

International Paper made income tax payments, net of refunds, of \$195 million and \$122 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company currently estimates, that as a result of ongoing discussions, pending tax settlements and expirations of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately \$2 million during the next 12 months.

International Paper uses the flow-through method to account for investment tax credits earned on eligible open loop-biomass facilities and Combined Heat and Power system expenditures. Under this method, the investment tax credits are recognized as a reduction to income tax expense in the year they are earned rather than a reduction in the asset basis. The Company recorded a

Table of Contents

tax benefit of \$6 million and \$29 million for the nine months ended September 30, 2018 and 2017, respectively. The 2017 amount includes \$2 million which is now reported as discontinued operations.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) requiring companies to pay a one-time deemed repatriation transition tax (the Transition Tax) on certain earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (AMT) and changing how AMT credits can be realized; (6) capital expensing; (7) eliminating the deduction on U.S. manufacturing activities; and (8) creating new limitations on deductible interest expense and executive compensation.

The Securities Exchange Commission staff issued Staff Accounting Bulletin (SAB) 118 which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, we recorded a provisional net tax benefit of \$1.22 billion in the period ending December 31, 2017. The net tax benefit primarily consisted of a net tax benefit for the re-measurement of U.S. deferred taxes of \$1.454 billion and an expense for the Transition Tax of \$231 million. For various reasons that are discussed more fully below, as of the quarter ended September 30, 2018, we have not completed our accounting for the income tax effects of the Tax Act. However, in the third quarter, we have updated certain estimates and recorded a beneficial adjustment of \$36 million to our provisional estimate.

The provisional estimates and related adjustments relate to the following:

Reduction of U.S. federal corporate tax rate: The Tax Act reduced the corporate tax rate to 21%, effective January 1, 2018. For certain of our deferred tax assets and liabilities, we recorded a provisional net decrease of \$1.451 billion with a corresponding adjustment to deferred income tax benefit in the same amount for the year ended December 31, 2017. After the completion of the federal income tax return during the reporting period, we recognized a beneficial adjustment of \$11 million from the remeasurement of certain temporary differences. The effect of the measurement-period adjustment on the 2018 third quarter effective tax rate was approximately 2.0%. A total decrease to the deferred tax liabilities to date of \$1.462 billion has been recorded with a corresponding adjustment of \$1.462 billion to income tax benefit. However, our accounting for these items is not yet complete because the state tax effect of adjustments made to federal temporary differences is not yet finalized. We will complete our accounting in the fourth quarter.

Deemed Repatriation Transition Tax: This is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of foreign subsidiaries. To determine the amount of the transition tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We were able to make a reasonable estimate of the Transition Tax and recorded a provisional Transition Tax obligation of \$231 million in the tax period ending December 31, 2017. On the basis of revised E&P computations that were calculated during the reporting period, as well as the impacts of guidance received from the IRS pertaining to the Transition Tax computation, we recognized an income tax benefit adjustment of \$25 million related to the Transition Tax obligation. The effect of the measurement-period adjustment on the 2018 third quarter effective tax rate was approximately 4.5%. A total Transition Tax obligation to date of \$206 million has been recorded as of September 30, 2018. Due to the fiscal year end of several significant foreign subsidiaries, we are continuing to gather additional information necessary to complete the calculation of the Transition Tax, and our accounting for this item is not yet complete. We will complete our accounting in the fourth quarter.

Our accounting for the following elements of the Tax Act is incomplete as of September 30, 2018. The estimates reported in the period ending December 31, 2017, were not adjusted in the period ending September 30, 2018. As of September 30, 2018, there has been no change in previous estimates made and reported in the period ending December 31, 2017.

Valuation Allowances: The Company has assessed whether its U.S. state and local income tax valuation allowance analysis is affected by various aspects of the Tax Act (e.g. deemed repatriation of foreign income, acceleration of cost recovery). Since, as discussed herein, the Company has recorded provisional amounts related to elements of the Tax Act, any corresponding determination of the need for a change in a valuation allowance is also provisional. For certain of our state deferred tax assets, we recorded a net \$3 million provisional decrease in the recorded valuation allowance with a corresponding adjustment to deferred income tax benefit in the same amount for the year ended December 31, 2017. While we are able to make a reasonable

Table of Contents

estimate of the impact of the Tax Act on state attributes, the resolution of, or changes from, other factors noted herein may result in changes in our recorded valuation allowance.

The Tax Act may impact decisions surrounding the Company's permanent reinvestment assertions related to its foreign investments and could have an impact on the Company's accounting for untaxed outside basis differences. We previously considered the earnings in our non-U.S. subsidiaries to be permanently reinvested, and, accordingly deferred income taxes were not provided for such basis differences. While the transition tax resulted in a reduction in these basis differences, an actual repatriation from our non-U.S. subsidiaries could still be subject to additional taxes, including, but not limited to, foreign withholding taxes and U.S. state income taxes. In light of the Tax Act, the Company is evaluating its global cash management and non-U.S. repatriation strategy but we have yet to determine whether we plan to change our prior assertion. Accordingly, we have not recorded any deferred taxes attributable to our investments in our non-U.S. subsidiaries.

These estimates may change materially due to, among other things, further clarification of existing guidance that may be issued by U.S. taxing authorities or regulatory bodies and/or changes in interpretations and assumptions we have preliminarily made. We will continue to analyze the Tax Act to finalize its financial statement impact, including the mandatory deemed repatriation of foreign earnings, re-measurement of deferred taxes and all other provisions of the legislation and will record the effects of any changes to provisional amounts in the fourth quarter as required by SAB 118.

Because of the complexity of the new Global Intangible Low Tax Income (GILTI) rules, we are continuing to evaluate this provision of the Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Our selection of an accounting policy related to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on a number of different aspects of our estimated future results of global operations, we are not yet able to reasonably estimate the long-term effects of this provision of the Act. Therefore, we have not recorded any potential deferred tax effects related to GILTI in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. We expect to complete our accounting within the prescribed measurement period.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Environmental

International Paper has been named as a potentially responsible party (PRP) in environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Many 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 CERCLA and equivalent state laws, as a practical matter, liability for CERCLA cleanups is typically allocated among the many PRPs. There are other remediation costs typically associated with the cleanup of hazardous substances at the Company's current, closed or formerly-owned facilities, and recorded as liabilities in the balance sheet.

Remediation costs are recorded in the consolidated financial statements when they become probable and reasonably estimable. International Paper has estimated the probable liability associated with these matters to be approximately \$131 million (\$142 million undiscounted) in the aggregate at September 30, 2018. Other than as described below, completion of required remedial actions is not expected to have a material effect on our consolidated financial statements.

Cass Lake: One of the matters included above arises out of a closed wood-treating facility located in Cass Lake, Minnesota. In June 2011, the United States Environmental Protection Agency (EPA) selected and published a proposed soil remedy at the site with an estimated cost of \$46 million. The overall remediation reserve for the site is currently \$50 million to address the selection of an alternative for the soil remediation component of the overall site remedy, which includes the ongoing groundwater remedy. In October 2011, the EPA released a public statement indicating that the final soil remedy decision would be delayed. In March 2016, the EPA issued a proposed plan concerning clean-up standards at a portion of the site, the estimated cost of which is included within the reserve referenced above. In October 2012, the Natural Resource Trustees for this site provided notice to International Paper and other PRPs of their intent to perform a Natural Resource Damage Assessment. It is premature to predict the outcome of the assessment or to estimate a loss or range of loss, if any, which may be incurred.

Kalamazoo River: The Company is a PRP with respect to the Allied Paper, Inc./Portage Creek/Kalamazoo River Superfund Site in Michigan. The EPA asserts that the site is contaminated by polychlorinated biphenyls (PCBs) primarily as a result of

Table of Contents

discharges from various paper mills located along the Kalamazoo River, including a paper mill (the Allied Paper Mill) formerly owned by St. Regis Paper Company (St. Regis). The Company is a successor in interest to St. Regis.

In March 2016, the Company and other PRPs received a special notice letter from the EPA (i) inviting participation in implementing a remedy for a portion of the site known as Operable Unit 5, Area 1, and (ii) demanding reimbursement of EPA past costs totaling \$37 million, including \$19 million in past costs previously demanded by the EPA. The Company responded to the special notice letter. In December 2016, the EPA issued a unilateral administrative order to the Company and other PRPs to perform the remedy. The Company responded to the unilateral administrative order, agreeing to comply with the order subject to its sufficient cause defenses.

In April 2016, the EPA issued a separate unilateral administrative order to the Company and certain other PRPs for a time-critical removal action (TCRA) of PCB-contaminated sediments from a different portion of the site. The Company responded to the unilateral administrative order and agreed along with two other parties to comply with the order subject to its sufficient cause defenses.

In October 2016, the Company and another PRP received a special notice letter from the EPA inviting participation in the remedial design component of the landfill remedy for the Allied Paper Mill. The record of decision establishing the final landfill remedy for the Allied Paper Mill was issued by the EPA in September 2016. The Company responded to the Allied Paper Mill special notice letter in late December 2016. In February 2017, the EPA informed the Company that it would make other arrangements for the performance of the remedial design.

The Company's CERCLA liability has not been finally determined with respect to these or any other portions of the site, and except as noted above, the Company has declined to perform any work or reimburse the EPA at this time.

The Company was named as a defendant by Georgia-Pacific Consumer Products LP, Fort James Corporation and Georgia Pacific LLC in a contribution and cost recovery action for alleged pollution at the site. The suit seeks contribution under CERCLA for costs purportedly expended by plaintiffs (\$79 million as of the filing of the complaint) and for future remediation costs. The suit alleges that a mill, during the time it was allegedly owned and operated by St. Regis, discharged PCB contaminated solids and paper residuals resulting from paper de-inking and recycling. NCR Corporation and Weyerhaeuser Company are also named as defendants in the suit. In mid-2011, the suit was transferred from the District Court for the Eastern District of Wisconsin to the District Court for the Western District of Michigan. The trial of the initial liability phase took place in February 2013. Weyerhaeuser conceded prior to trial that it was a liable party with respect to the site. In September 2013, an opinion and order was issued in the suit. The order concluded that the Company (as the successor to St. Regis) was not an "operator," but was an "owner," of the mill at issue during a portion of the relevant period and is therefore liable under CERCLA. The order also determined that NCR is a liable party as an "arranger for disposal" of PCBs in waste paper that was de-inked and recycled by mills along the Kalamazoo River. The order did not address the Company's responsibility, if any, for past or future costs. The parties' responsibility, including that of the Company, was the subject of a second trial, which was concluded in late 2015. In March 2018, the Court issued an Opinion addressing the Company's liability for past costs. The Court's Final Judgment and Order were issued on June 19, 2018. The Court fixed the past cost amount at approximately \$50 million (plus interest to be determined) and allocated to the Company a 15% share of responsibility for those past costs. The Court did not address responsibility for future remediation costs in its decision. In July 2018, the Company and each of the other parties filed notices appealing the Final Judgment and prior orders incorporated into that Judgment. As to future remediation costs, the Company remains unable to estimate our maximum reasonably possible loss with respect to this site. However, we do not believe that any material loss is probable.

Harris County: International Paper and McGinnis Industrial Maintenance Corporation (MIMC), a subsidiary of Waste Management, Inc. (WMI), are PRPs at the San Jacinto River Waste Pits Superfund Site in Harris County, Texas. The PRPs have been actively participating in the activities at the site and share the costs of these activities. In September

2016, the EPA issued a proposed remedial action plan (PRAP) for the site, which identified the preferred remedy as the removal of the contaminated material currently protected by an armored cap. In addition, the EPA selected a preferred remedy for the separate southern impoundment that requires offsite disposal. In January 2017, the PRPs submitted comments on the PRAP.

On October 11, 2017, the EPA issued a Record of Decision (ROD) selecting the final remedy for the site: removal and relocation of the waste material from both the northern and southern impoundments. The EPA did not specify the methods or practices needed to perform this work. While the EPA's selected remedy was accompanied by a cost estimate of approximately \$115 million, we do not believe that estimate provides a reasonable basis for accrual under GAAP because the estimate was based on a technological method for performing the work that we believe is not feasible. Subsequent to the issuance of the ROD, there have been several meetings between the EPA and the PRPs, and the Company continues to work with the EPA and MIMC/WMI to develop the remedial design. To this end, in April 2018, the PRPs entered into an Administrative Order on

Table of Contents

Consent (AOC) with the EPA, agreeing to work together to develop the remedial design over the subsequent 29 months. The AOC does not include any agreement to perform waste removal or other construction activity at the site. Rather, it involves adaptive management techniques and a pre-design investigation, the objectives of which include filling data gaps (including but not limited to post-Hurricane Harvey technical data generated prior to the ROD and not incorporated into the selected remedy), refining areas and volumes of materials to be addressed, determining if the excavation remedy is able to be implemented in a manner protective of human health and the environment, and investigating potential impacts to infrastructure in the vicinity. The Company has identified a number of concerns and uncertainties regarding the remedy described in the ROD and regarding the EPA's estimates for the costs and time required to implement the selected remedy. The Company has determined, however, that even if the ROD cannot be implemented, a sheet pile "engineered barrier" can be constructed, which would enhance the existing remedy and could also be used should the ROD be determined to be feasible and implementable. We have increased our recorded liability accordingly to reflect the estimated cost of constructing this barrier. Because of ongoing questions regarding cost effectiveness, technical feasibility, timing and other technical data, however, it is uncertain how the ROD will be implemented. Consequently, while additional losses are probable as a result of the selected remedy, we are currently unable to determine any further adjustment to our immaterial recorded liability. It remains reasonably possible that additional losses could be material as the remedial design process with the EPA continues over the coming quarters.

International Paper and MIMC/WMI are also defending an additional lawsuit related to the site brought by approximately 600 individuals who allege property damage and personal injury. Because this case is still in the discovery phase, it is premature to predict the outcome or to estimate a loss or range of loss, if any, which may be incurred.

Antitrust

Containerboard: In June 2016, a lawsuit captioned Ashley Furniture Indus., Inc. v. Packaging Corporation of America (W.D. Wis.), was filed in federal court in Wisconsin against ten defendants, including the Company, Temple-Inland and Weyerhaeuser Company. The Ashley Furniture lawsuit alleges a civil violation of Section 1 of the Sherman Act (in particular, that defendants conspired to limit the supply and thereby increase prices of containerboard products), and also asserts Wisconsin state antitrust claims.

In January 2011, International Paper was named as a defendant in a lawsuit filed in state court in Cocke County, Tennessee alleging that International Paper violated Tennessee law by conspiring to limit the supply and fix the prices of containerboard from mid-2005 to the present. Plaintiffs in the state court action seek certification of a class of Tennessee indirect purchasers of containerboard products, damages and costs, including attorneys' fees. No class certification materials have been filed to date in the Tennessee action.

The Company disputes the allegations made in the Ashley Furniture and Tennessee lawsuits and is vigorously defending each. At this time, however, because the actions are in a preliminary stage, we are unable to predict an outcome or estimate a range of reasonably possible loss.

Contract

Signature: In August 2014, a lawsuit captioned Signature Industrial Services LLC et al. v. International Paper Company was filed in state court in Texas. The Signature lawsuit arises out of approximately \$1 million in disputed invoices related to the installation of new equipment at the Company's Orange, Texas mill. In addition to the invoices in dispute, Signature and its president allege consequential damages arising from the Company's nonpayment of those invoices. The lawsuit was tried before a jury in Beaumont, Texas, in May 2017. On June 1, 2017, the jury returned a verdict awarding approximately \$125 million in damages to the plaintiffs. The Court issued a judgment on December 14, 2017, awarding the plaintiffs a total of approximately \$137 million in actual and consequential damages, fees,

costs and pre-judgment interest, and awarding post-judgment interest. The Company has appealed this judgment. The Company has numerous and strong bases for appeal, and we believe we will prevail on appeal. Because the appellate proceedings are in a preliminary stage, we are unable to estimate a range of reasonably possible loss, but we expect the amount of any loss to be immaterial.

General

The Company is involved in various other inquiries, administrative proceedings and litigation relating to environmental and safety matters, personal injury, labor and employment, contracts, sales of property, intellectual property 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 of these other lawsuits or claims that are pending or threatened or all of them combined (other than those that cannot be assessed due to their preliminary nature) will not have a material effect on its consolidated financial statements.

Table of ContentsNOTE 15 - VARIABLE INTEREST ENTITIES AND PREFERRED SECURITIES OF SUBSIDIARIES

Variable Interest Entities

As of September 30, 2018, the fair value of the Timber Notes and Extension Loans is \$4.67 billion and \$4.19 billion, respectively, for the 2015 Financing Entities. The Timber Notes and Extension Loans are classified as Level 2 within the fair value hierarchy, which is further defined in Note 14 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Activity between the Company and the 2015 Financing Entities was as follows:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|-------------------|--|-------|---|-------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Revenue (a) | \$ 24 | \$ 24 | \$ 71 | \$ 71 |
| Expense (a) | 32 | 32 | 96 | 96 |
| Cash receipts (b) | 48 | 48 | 95 | 95 |
| Cash payments (c) | 64 | 64 | 128 | 128 |

(a) The revenue and expense are included in Interest expense, net in the accompanying statement of operations.

(b) The cash receipts are interest received on the Financial assets of special purpose entities.

(c) The cash payments represent interest paid on Nonrecourse financial liabilities of special purpose entities.

As of September 30, 2018, the fair value of the Timber Notes and Extension Loans is \$2.25 billion and \$2.09 billion, respectively, for the 2007 Financing Entities. The Timber Notes and Extension Loans are classified as Level 2 within the fair value hierarchy, which is further defined in Note 14 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Activity between the Company and the 2007 Financing Entities was as follows:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|-------------------|--|-------|---|-------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Revenue (a) | \$ 19 | \$ 12 | \$ 52 | \$ 35 |
| Expense (b) | 18 | 13 | 48 | 36 |
| Cash receipts (c) | 15 | 7 | 34 | 19 |
| Cash payments (d) | 16 | 10 | 40 | 28 |

The revenue is included in Interest expense, net in the accompanying statement of operations and includes approximately \$5 million and \$14 million for both of the three and nine months ended September 30, 2018 and (a) 2017, respectively, of accretion income for the amortization of the basis difference adjustment on the Financial assets of special purpose entities.

(b) The expense is included in Interest expense, net in the accompanying statement of operations and includes approximately \$2 million and \$5 million for both of the three and nine months ended September 30, 2018 and

2017, respectively, of accretion expense for the amortization of the basis difference adjustment on the Nonrecourse financial liabilities of special purpose entities.

(c) The cash receipts are interest received on the Financial assets of special purpose entities.

(d) The cash payments are interest paid on Nonrecourse financial liabilities of special purpose entities.

NOTE 16 - DEBT

In December 2017, International Paper received \$660 million in cash proceeds from a new loan entered into as part of the transfer of the North American Consumer Packaging business to a subsidiary of Graphic Packaging Holding Company discussed in Note 9 and Note 11. The Company used the cash proceeds, together with available cash, to pay down existing debt of approximately \$900 million. The \$660 million term loan was subsequently assumed by a subsidiary of Graphic Packaging Holding Company, on January 1, 2018 and was classified as Liabilities held for sale at December 31, 2017, in the accompanying consolidated balance sheet.

In June 2016, International Paper entered into a commercial paper program with a borrowing capacity of \$750 million. In June 2018, the borrowing capacity of the commercial paper program was increased to \$1.0 billion. Under the terms of the program, individual maturities on borrowings may vary, but not exceed one year from the date of issue. Interest bearing notes may be issued either as fixed or floating rate notes. As of September 30, 2018, the Company had \$400 million of borrowings outstanding under the program at a weighted average interest rate of 2.34%.

Table of Contents

At September 30, 2018, the fair value of International Paper's \$11.3 billion of debt was approximately \$11.5 billion. The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues. International Paper's long-term debt is classified as Level 2 within the fair value hierarchy, which is further defined in Note 14 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE 17 - DERIVATIVES AND HEDGING ACTIVITIES

As a multinational company we are exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices.

The notional amounts of qualifying and non-qualifying financial instruments used in hedging transactions were as follows:

| In millions | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Derivatives in Cash Flow Hedging Relationships: | | |
| Foreign exchange contracts (a) | \$ 432 | \$ 329 |
| Derivatives Not Designated as Hedging Instruments: | | |
| Electricity contract | 8 | 13 |
| Foreign exchange contracts | 9 | 10 |

(a) These contracts had maturities of two years or less as of September 30, 2018.

The following table shows gains or losses recognized in AOCI, net of tax, related to derivative instruments:

| | Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) Three Months Ended September 30, 2018 | | | |
|----------------------------|--|------|--------|------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Foreign exchange contracts | \$ 1 | \$ 1 | \$(18) | \$ 9 |
| Interest rate contracts | — | — | (2) | — |
| Total | \$ 1 | \$ 1 | \$(20) | \$ 9 |

During the next 12 months, the amount of the September 30, 2018 AOCI balance, after tax, that is expected to be reclassified to earnings is a loss of \$8 million.

The amounts of gains and losses recognized in the statement of operations on qualifying and non-qualifying financial instruments used in hedging transactions were as follows:

| Gain (Loss) Reclassified from AOCI (Effective Portion) | Location of Gain (Loss) Reclassified from AOCI (Effective Portion) |
|---|--|
|---|--|

| | Three | | Nine | |
|---|-----------|------|-----------|-----------------------|
| | Months | | Months | |
| | Ended | | Ended | |
| | September | | September | |
| | 30, | | 30, | |
| In millions | 2018 | 2017 | 2018 | 2017 |
| Derivatives in Cash Flow Hedging Relationships: | | | | |
| Foreign exchange contracts | \$(2) | \$ 2 | \$(2) | \$ 6 |
| Total | \$(2) | \$ 2 | \$(2) | \$ 6 |
| | | | | Cost of products sold |

Table of Contents

| | Gain (Loss) | | Location of Gain (Loss) | |
|--|--|---|----------------------------------|--|
| | Recognized | | In Statement of Operations | |
| | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 | | |
| In millions | | | | |
| Derivatives Not Designated as Hedging Instruments: | | | | |
| Electricity contract | \$2 \$(8) | \$1 \$(10) | Cost of products sold | |
| Foreign exchange contracts | 3 — | 4 — | Cost of products sold | |
| Total | \$5 \$(8) | \$5 \$(10) | | |

Fair Value Measurements

The Company has not changed its valuation techniques for measuring the fair value of any financial assets or liabilities during the year. Transfers between levels, if any, are recognized at the end of the reporting period.

The following table provides a summary of the impact of our derivative instruments in the balance sheet:

Fair Value Measurements

Level 2 – Significant Other Observable Inputs

| In millions | Assets | | Liabilities | |
|---|--------------------------|----------------------|--------------------------|----------------------|
| | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 |
| Derivatives designated as hedging instruments | | | | |
| Foreign exchange contracts – cash flow | \$2(a) | \$ 11 | (b)\$21 | (c) \$ 1 (d) |
| Total derivatives designated as hedging instruments | 2 | 11 | 21 | 1 |
| Derivatives not designated as hedging instruments | | | | |
| Electricity contract | — | — | 3 (d) | 8 (e) |
| Foreign exchange contracts | 1 (a) | — | — | — |
| Total derivatives not designated as hedging instruments | 1 | — | 3 | 8 |
| Total derivatives | \$3 | \$ 11 | \$24 | \$ 9 |

(a) Included in Other current assets in the accompanying consolidated balance sheet.

(b) Includes \$10 million recorded in Other current assets and \$1 million recorded in Deferred charges and other assets in the accompanying balance sheet.

(c) Includes \$16 million recorded in Other accrued liabilities and \$5 million recorded in Other liabilities in the accompanying consolidated balance sheet.

(d) Included in Other accrued liabilities in the accompanying balance sheet.

(e) Includes \$5 million recorded in Other accrued liabilities and \$3 million recorded in Other liabilities in the accompanying consolidated balance sheet.

The above contracts are subject to enforceable master netting arrangements that provide rights of offset with each counterparty when amounts are payable on the same date in the same currency or in the case of certain specified

defaults. Management has made an accounting policy election to not offset the fair value of recognized derivative assets and derivative liabilities in the balance sheet. The amounts owed to the counterparties and owed to the Company are considered immaterial with respect to each counterparty and in the aggregate with all counterparties.

NOTE 18 - RETIREMENT PLANS

International Paper sponsors and maintains the Retirement Plan of International Paper Company (the Pension Plan), a tax-qualified defined benefit pension plan that provides retirement benefits to substantially all U.S. salaried employees and hourly employees (receiving salaried benefits) hired prior to July 1, 2004, and substantially all other U.S. hourly and union employees who work at a participating business unit regardless of hire date. These employees generally are eligible to participate in the Pension Plan upon attaining 21 years of age and completing one year of eligibility service. U.S. salaried employees and hourly employees (receiving salaried benefits) hired after June 30, 2004, are not eligible for the Pension Plan, but receive a company contribution to their individual savings plan accounts; however, salaried employees hired by Temple Inland prior to March 1, 2007 or Weyerhaeuser Company's Cellulose Fibers division prior to December 1, 2011 also participate in the Pension Plan.

Table of Contents

The Pension Plan provides defined pension benefits based on years of credited service and either final average earnings (salaried employees and hourly employees receiving salaried benefits), hourly job rates or specified benefit rates (hourly and union employees).

The Company will freeze participation, including credited service and compensation, for salaried employees under the Pension Plan, the Pension Restoration Plan and the two SERP plans for all service on or after January 1, 2019. This change will not affect benefits accrued through December 31, 2018.

Net periodic pension expense for our qualified and nonqualified U.S. defined benefit plans comprised the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|--|-------|--|-------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Service cost | \$40 | \$39 | \$119 | \$118 |
| Interest cost | 118 | 138 | 356 | 415 |
| Expected return on plan assets | (200) | (192) | (600) | (577) |
| Actuarial loss | 95 | 87 | 285 | 260 |
| Amortization of prior service cost | 4 | 7 | 12 | 21 |
| Net periodic pension expense | \$57 | \$79 | \$172 | \$237 |

The components of net periodic pension expense other than the Service cost component are included in Non-operating pension expense in the Consolidated Statement of Operations.

The Company's funding policy for our pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plan, tax deductibility, the cash flows generated by the Company, and other factors. The Company made no voluntary cash contributions in the first nine months of 2018 and a voluntary cash contribution of \$1.25 billion to the qualified pension plan in the first nine months of 2017. The nonqualified defined benefit plans are funded to the extent of benefit payments, which totaled \$24 million for the nine months ended September 30, 2018.

On September 25, 2018, the Company entered into an agreement with The Prudential Insurance Company of America to purchase a group annuity contract and transfer approximately \$1.6 billion of International Paper's U.S. qualified pension plan projected benefit obligations, subject to customary closing conditions. The transaction closed on October 2, 2018 and was funded with plan assets. Under the transaction, Prudential will assume responsibility for pension benefits and annuity administration for approximately 23,000 retirees or their beneficiaries receiving less than \$1,000 in monthly benefit payments from the plan. The Company expects to recognize a non-cash pension settlement charge of approximately \$425 million before tax in the fourth quarter of 2018.

NOTE 19 - STOCK-BASED COMPENSATION

International Paper has an Incentive Compensation Plan (ICP) which is administered by the Management Development and Compensation Committee of the Board of Directors (the Committee). The ICP authorizes the grants of restricted stock, restricted or deferred stock units, performance awards payable in cash or stock upon the attainment of specified performance goals, dividend equivalents, stock options, stock appreciation rights, other stock-based awards and cash-based awards at the discretion of the Committee. As of September 30, 2018, 11.9 million shares were available for grant under the ICP.

Stock-based compensation expense and related income tax benefits were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|------|---|-------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Total stock-based compensation expense (selling and administrative) | \$35 | \$37 | \$102 | \$116 |
| Income tax benefits related to stock-based compensation | (6) | (2) | 16 | 43 |

At September 30, 2018, \$134 million, net of estimated forfeitures, of compensation cost related to unvested restricted performance shares, executive continuity awards and restricted stock attributable to future service had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 1.8 years.

Table of Contents

Performance Share Plan

During the first nine months of 2018, the Company granted 1.8 million performance units at an average grant date fair value of \$62.97.

NOTE 20 - BUSINESS SEGMENT INFORMATION

International Paper's business segments, Industrial Packaging, Global Cellulose Fibers and Printing Papers, are consistent with the internal structure used to manage these businesses. All segments are differentiated on a common product, common customer basis consistent with the business segmentation generally used in the Forest Products industry.

The Company also holds a 50% interest in Ilim Holding S.A. and a 20.5% interest in Graphic Packaging International LLC, which are separate reportable industry segments. See Note 11 for details of the Company's ownership in each of these investments.

Business segment operating profits are used by International Paper's management to measure the earnings performance of its businesses. Management believes that this measure allows a better understanding of trends in costs, operating efficiencies, prices and volumes. Business segment operating profits are defined as earnings (loss) from continuing operations before income taxes and equity earnings, but including the impact of equity earnings and noncontrolling interests, excluding corporate items, corporate special items and non-operating pension expense.

Sales by business segment for the three months and nine months ended September 30, 2018 and 2017 were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|--|---------|---------------------------------------|----------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Industrial Packaging | \$4,034 | \$3,822 | \$11,883 | \$11,184 |
| Global Cellulose Fibers | 714 | 654 | 2,083 | 1,830 |
| Printing Papers | 1,102 | 1,039 | 3,215 | 3,051 |
| Corporate and Intersegment Sales | 51 | 2 | 174 | (33) |
| Net Sales | \$5,901 | \$5,517 | \$17,355 | \$16,032 |

Operating profit by business segment for the three months and nine months ended September 30, 2018 and 2017 were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|-------|---------------------------------------|-------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Industrial Packaging | \$472 | \$490 | \$1,446 | \$938 |
| Global Cellulose Fibers | 83 | 49 | 160 | (14) |
| Printing Papers | 183 | 135 | 341 | 321 |
| Business Segment Operating Profits | 738 | 674 | 1,947 | 1,245 |
| Earnings (loss) from continuing operations before income taxes and equity earnings | 553 | 457 | \$1,399 | \$651 |

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| | | | | |
|---|-------|-------|---------|---------|
| Interest expense, net | 133 | 152 | 401 | 431 |
| Noncontrolling interests/equity earnings adjustment | (2) | — | (7) | (1) |
| Corporate items, net | 20 | 32 | 59 | 73 |
| Corporate special items, net | 9 | — | 30 | (7) |
| Non-operating pension expense | 25 | 33 | 65 | 98 |
| Business Segment Operating Profits | \$738 | \$674 | \$1,947 | \$1,245 |

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
ITEM 2. OPERATIONS
EXECUTIVE SUMMARY

Net earnings (loss) attributable to International Paper common shareholders were \$562 million (\$1.37 per diluted share) in the third quarter of 2018, compared with \$405 million (\$0.97 per diluted share) in the second quarter of 2018 and \$395 million (\$0.95 per diluted share) in the third quarter of 2017. Adjusted Operating Earnings is a non-GAAP measure and is defined as net earnings from continuing operations (a GAAP measure) excluding special items and non-operating pension expense. International Paper generated Adjusted Operating Earnings Attributable to International Paper Common Shareholders of \$641 million (\$1.56 per diluted share) in the third quarter of 2018, compared with \$498 million (\$1.19 per diluted share) in the 2018 second quarter and \$420 million (\$1.01 per diluted share) in the 2017 third quarter.

International Paper delivered a strong performance in the third quarter and year-over-year earnings growth of more than 50%. The strong performance was driven by solid commercial execution and continued price realization across our three businesses. Our operations also performed well in a lighter planned maintenance outage quarter. Our North American Industrial Packaging business performed very well, with volume ahead of industry growth in the third quarter. Our Global Cellulose Fibers business delivered record fluff pulp shipments, despite the impacts of Hurricane Florence, and our Printing Papers business had outstanding commercial and operational performance to deliver very strong results globally. Our equity earnings were \$92 million, which includes \$74 million from our Ilim joint venture and \$19 million from our ownership interest in Graphic Packaging.

Earnings momentum continued in the third quarter with continued price realization across all three businesses, including our North American Industrial Packaging business which realized 90% of our recent box increase as we exited the third quarter. Hurricane Florence negatively impacted volume by \$8 million and operations by \$28 million, mostly in our Global Cellulose Fibers business. Box shipments in our North American Industrial Packaging business were up year-over-year in the third quarter, and volumes in our European Packaging business were seasonally lower and negatively impacted by weak fruit and vegetable demand due to adverse weather conditions. Input costs were a headwind across all of our businesses during the quarter, primarily driven by higher wood, energy, chemical and recovered fiber costs. Performance in our European Packaging business was negatively impacted by the start-up and commissioning costs, as well as, the overhead burden of the Madrid mill. Distribution costs were unfavorable across all of our businesses as the distribution environment remains very tight. Our Ilim joint venture again delivered strong results in a heavy planned maintenance outage quarter. Our equity earnings also included the impact of a non-cash foreign currency charge on Ilim's U.S. dollar denominated net debt.

Looking ahead, the Company is well positioned for strong fourth quarter results. In our North American Industrial Packaging business, we expect to see flow-through benefits from the last part of the recent price increase. Volumes are expected to be seasonally higher and in Europe, we expect to start capturing integrated margins on recycled containerboard as the Madrid mill ramps up. Outage expenses are expected to be significantly lower and input costs are expected to be stable. In our Global Cellulose Fibers business, additional realization of prior price increases will be largely offset by geographic and product mix in the fourth quarter. Volumes are expected to be seasonally higher and operations are expected to improve. Outage expense will be slightly higher. In our Printing Papers business, we expect continued realization of recent price increases and improved mix. Volumes are expected to improve due to stronger seasonal demand in Latin America and Europe. Outage costs will be slightly higher and input costs are expected to be a headwind, largely due to higher wood costs in Brazil and Russia. Finally, for our Ilim joint venture, we expect higher volumes due to lower planned maintenance outages and a continued strong commercial and operating performance.

Adjusted Operating Earnings and Adjusted Operating Earnings Per Share are non-GAAP measures and are defined as net earnings from continuing operations (a GAAP measure) excluding special items and non-operating pension expense. Net earnings (loss) and Diluted earnings (loss) per share attributable to common shareholders are the most direct comparable GAAP measures. The Company calculates Adjusted Operating Earnings by excluding the after-tax effect of non-operating pension expense, items considered by management to be unusual and discontinued operations from the earnings reported under GAAP. Adjusted Operating Earnings Per Share is calculated by dividing Adjusted Operating Earnings by diluted average shares of common stock outstanding. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. The Company believes that using this information, along with the most direct comparable GAAP measure, provides for a more complete analysis of the results of operations.

Table of Contents

The following are reconciliations of Earnings (loss) attributable to common shareholders to Adjusted Operating Earnings (Loss) attributable to common shareholders.

| | Three Months Ended September 30, | Three Months Ended June 30, | |
|---|--|--------------------------------------|---------|
| In millions | 2018 | 2017 | 2018 |
| Earnings (Loss) Attributable to Shareholders | \$562 | \$395 | \$405 |
| Less - Discontinued operations (gain) loss | — | (29) | 23 |
| Earnings (Loss) from Continuing Operations | 562 | 366 | 428 |
| Add Back - Non-operating pension (income) expense | 25 | 33 | 36 |
| Add Back - Net special items expense (income) | 142 | 23 | 47 |
| Income tax effect - Non-operating pension and special items expense | (88) | (2) | (13) |
| Adjusted Operating Earnings (Loss) Attributable to Shareholders | \$641 | \$420 | \$498 |
| | Three Months Ended September 30, | Three Months Ended June 30, | |
| | 2018 | 2017 | 2018 |
| Diluted Earnings (Loss) Per Share Attributable to Shareholders | \$1.37 | \$0.95 | \$0.97 |
| Less - Discontinued operations (gain) loss per share | — | (0.07) | 0.05 |
| Diluted Earnings (Loss) Per Share from Continuing Operations | 1.37 | 0.88 | 1.02 |
| Add Back - Non-operating pension (income) expense per share | 0.06 | 0.08 | 0.09 |
| Add Back - Net special items expense (income) per share | 0.34 | 0.05 | 0.11 |
| Income tax effect per share - Non-operating pension and special items expense | (0.21) | — | (0.03) |
| Adjusted Operating Earnings (Loss) Per Share Attributable to Shareholders | \$1.56 | \$1.01 | \$1.19 |

The Company generated free cash flow of approximately \$1.1 billion and \$1.2 billion in the first nine months of 2018 and 2017, respectively. Free cash flow is a non-GAAP measure and the most directly comparable GAAP measure is cash provided by operations. Management believes that free cash flow is useful to investors as a liquidity measure because it measures the amount of cash generated that is available, after reinvesting in the business, to maintain a strong balance sheet, pay dividends, repurchase stock, service debt and make investments for future growth. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. By adjusting for certain items that are not indicative of the Company's ongoing performance, free cash flow also enables investors to perform meaningful comparisons between past and present periods.

The following is a reconciliation of cash provided by operations to free cash flow:

| | Nine Months Ended September 30, | |
|-----------------------------------|---------------------------------------|---------|
| In millions | 2018 | 2017 |
| Cash provided by operations | \$2,405 | \$569 |
| Adjustments: | | |
| Cash invested in capital projects | (1,286) | (935) |
| Cash contribution to pension plan | — | 1,250 |
| Cash payment for Kleen settlement | — | 354 |
| Free Cash Flow | \$1,119 | \$1,238 |

RESULTS OF OPERATIONS

For the third quarter of 2018, International Paper Company reported net sales of \$5.9 billion, compared with \$5.8 billion in the second quarter of 2018 and \$5.5 billion in the third quarter of 2017.

Net earnings attributable to International Paper totaled \$562 million, or \$1.37 per diluted share, in the 2018 third quarter. This compared with \$405 million, or \$0.97 per diluted share, in the second quarter of 2018 and \$395 million, or \$0.95 per diluted share, in the third quarter of 2017.

Earnings from continuing operations attributable to International Paper Company were \$562 million in the third quarter of 2018, \$428 million in the second quarter of 2018 and \$366 million in the third quarter of 2017.

Table of Contents

Compared with the second quarter of 2018, earnings benefited from higher average sales prices and a favorable mix (\$84 million), lower mill maintenance outage costs (\$81 million), lower corporate and other items (\$7 million), lower tax expense (\$10 million) reflecting a lower estimated tax rate and lower non-operating pension expense (\$8 million). These benefits were offset by lower sales volumes (\$5 million), higher operating costs (\$18 million) and higher raw material and freight costs (\$38 million). Equity earnings, net of taxes, relating to International Paper's investments in Ilim Holding S.A., Graphic Packaging International Partners, LLC, and other investments were \$22 million higher than in the 2018 second quarter. Net special items in the 2018 third quarter were a loss of \$60 million compared with a loss of \$43 million in the 2018 second quarter.

Table of Contents

Compared with the third quarter of 2017, the 2018 third quarter reflects higher average sales prices and a favorable mix (\$270 million), higher sales volumes (\$17 million), lower corporate and other costs (\$10 million), lower net interest expense (\$14 million), lower tax expense (\$23 million) reflecting a lower estimated tax rate and lower non-operating pension expense (\$1 million). These benefits were offset by higher operating costs (\$95 million), higher raw material and freight costs (\$29 million) and higher mill maintenance outage costs (\$36 million). Equity earnings, net of taxes, relating to International Paper's investments in Ilim Holding S.A., Graphic Packaging International Partners, LLC, and other investments were \$47 million higher in the 2018 third quarter than in the 2017 third quarter. Net special items in the 2018 third quarter were a loss of \$60 million compared with a loss of \$34 million in the 2017 third quarter.

Business Segment Operating Profits are used by International Paper's management to measure the earnings performance of its businesses. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. International Paper believes that using this information, along with net earnings, provides a more complete analysis of the results of operations by quarter. Business Segment Operating Profits are defined as earnings (loss) from continuing operations before income taxes and equity earnings, but including the impact of equity earnings and noncontrolling interests, excluding corporate items, corporate special items and non-operating pension expense.

International Paper operates in three segments: Industrial Packaging, Global Cellulose Fibers and Printing Papers.

Table of Contents

The following table presents a reconciliation of net earnings (loss) from continuing operations attributable to International Paper Company to its Total Business Segment Operating Profit:

| | Three Months Ended | | |
|--|--------------------|-------|-------|
| | September | June | |
| | 30, | 30, | |
| In millions | 2018 | 2017 | 2018 |
| Net Earnings (Loss) From Continuing Operations Attributable to International Paper Company | \$562 | \$366 | \$428 |
| Add back (deduct): | | | |
| Income tax provision (benefit) | 83 | 136 | 130 |
| Equity (earnings) loss, net of taxes | (92) | (45) | (70) |
| Noncontrolling interests, net of taxes | — | — | 2 |
| Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings | 553 | 457 | 490 |
| Interest expense, net | 133 | 152 | 133 |
| Noncontrolling interests / equity earnings included in operations | (2) | — | (4) |
| Corporate items | 20 | 32 | 30 |
| Corporate special items (income) expense | 9 | — | 12 |
| Non-operating pension expense | 25 | 33 | 36 |
| Adjusted Operating Profit | \$738 | \$674 | \$697 |
| Business Segment Operating Profit: | | | |
| Industrial Packaging | \$472 | \$490 | \$537 |
| Global Cellulose Fibers | 83 | 49 | 66 |
| Printing Papers | 183 | 135 | 94 |
| Total Business Segment Operating Profit | \$738 | \$674 | \$697 |

Business Segment Operating Profit

Total business segment operating profits were \$738 million in the 2018 third quarter, \$697 million in the 2018 second quarter, and \$674 million in the 2017 third quarter.

Table of Contents

Compared with the second quarter of 2018, operating profits benefited from higher average sales prices and a favorable mix (\$113 million) and lower mill outage costs (\$108 million). These benefits were offset by lower sales volumes (\$7 million), higher operating costs (\$24 million) and higher raw material and freight costs (\$51 million). Special items were a loss of \$133 million in the 2018 third quarter compared with a loss of \$35 million in the 2018 second quarter.

The third quarter of 2018 results were impacted by approximately \$36 million related to Hurricane Florence, primarily from higher operating costs and lower volumes. Costs and operations in the third quarter of 2018 also reflect higher expenses related to the Madrid mill startup. The higher startup costs were offset by lower spending in our businesses, mainly related to lower health and medical benefit costs.

Table of Contents

Compared with the third quarter of 2017, operating profits in the current quarter benefited from higher average sales prices and a favorable mix (\$369 million) and higher sales volumes (\$23 million). These benefits were offset by higher operating costs (\$130 million), higher raw material and freight costs (\$39 million) and higher mill outage costs (\$49 million). Special items were a loss of \$133 million in the 2018 third quarter compared with a loss of \$23 million in the 2017 third quarter.

Economic downtime is taken to balance internal supply with our customer demand, while maintenance downtime is taken periodically during the year. The following table details maintenance and economic-related downtime (in tons):

| | Three Months Ended September 30, 2018 | Three Months Ended June 30, 2018 | Three Months Ended September 30, 2017 |
|---------------------------|---|---|---|
| Economic-related downtime | — | — | — |
| Maintenance downtime | 197,000 | 265,000 | 93,000 |

Table of Contents

Sales Volumes by Product (a)

Sales volumes of major products for the three months and nine months ended September 30, 2018 and 2017 were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-------|---------------------------------|--------|
| In thousands of short tons (except as noted) | 2018 | 2017 | 2018 | 2017 |
| Industrial Packaging | | | | |
| Corrugated Packaging (c) | 2,666 | 2,599 | 7,969 | 7,784 |
| Containerboard | 853 | 828 | 2,436 | 2,438 |
| Recycling | 566 | 544 | 1,700 | 1,684 |
| Saturated Kraft | 51 | 45 | 149 | 132 |
| Gypsum/Release Kraft | 56 | 54 | 176 | 165 |
| Bleached Kraft | 8 | 7 | 24 | 20 |
| EMEA Packaging (c) (d) | 329 | 350 | 1,113 | 1,124 |
| Brazilian Packaging (c) | 92 | 93 | 263 | 266 |
| European Coated Paperboard | 98 | 103 | 284 | 296 |
| Industrial Packaging | 4,719 | 4,623 | 14,114 | 13,909 |
| Global Cellulose Fibers (in thousands of metric tons) (b) | 886 | 933 | 2,665 | 2,706 |
| Printing Papers | | | | |
| U.S. Uncoated Papers | 461 | 497 | 1,415 | 1,451 |
| European and Russian Uncoated Papers | 363 | 365 | 1,066 | 1,104 |
| Brazilian Uncoated Papers | 293 | 280 | 818 | 832 |
| Indian Uncoated Papers | 62 | 58 | 195 | 186 |
| Printing Papers | 1,179 | 1,200 | 3,494 | 3,573 |

(a) Sales volumes include third party and inter-segment sales and exclude sales of equity investees.

(b) Includes North American, European and Brazilian volumes and internal sales to mills.

(c) Volumes for corrugated box sales reflect consumed tons sold (CTS). Board sales for these businesses reflect invoiced tons.

(d) Excludes newsprint sales volumes at the Madrid, Spain mill through the third quarter of 2017.

Discontinued Operations

See discussion in Note 9 - Divestitures in the Condensed Notes to the Consolidated Financial Statements.

Income Taxes

An income tax provision of \$83 million was recorded for the 2018 third quarter and the reported effective income tax rate was 15%. Excluding a benefit of \$82 million related to the tax effects of special items and a benefit of \$6 million related to the tax effects of non-operating pension expense, the effective income tax rate was 24% for the quarter.

An income tax provision of \$130 million was recorded for the 2018 second quarter and the reported effective income tax rate was 27%. Excluding a benefit of \$4 million related to the tax effects of special items and a benefit of \$9 million related to the tax effects of non-operating pension expense, the effective income tax rate was 25% for the quarter.

An income tax provision of \$136 million was recorded for the 2017 third quarter and the reported effective income tax rate was 30%. Excluding an expense of \$11 million related to the tax effects of special items and a benefit of \$13 million related to the tax effects of non-operating pension expense, the effective income tax rate was 27% for the quarter.

Interest Expense

Net interest expense was \$133 million for both the 2018 third quarter and 2018 second quarter and \$152 million in the 2017 third quarter.

Table of Contents

Effects of Special Items and Non-Operating Pension Expense

Details of special items and non-operating pension expense for the three months ended are as follows:

| In millions | Three Months Ended | | | | | |
|---|--------------------|-----------|------------|-----------|------------|-----------|
| | September 30, | | June 30, | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | Before Tax | After Tax | Before Tax | After Tax | Before Tax | After Tax |
| Business Segments | | | | | | |
| EMEA Packaging optimization | \$— | \$— | \$— | \$— | \$26 | \$18 |
| Abandoned property removal | 6 | 4 | 7 | 4 | 9 | 7 |
| Riverdale mill conversion | 5 | 4 | — | — | — | — |
| Brazil Packaging impairment | 122 | 81 | — | — | — | — |
| Brazil Packaging wood supply accelerated amortization | — | — | 10 | 7 | — | — |
| Weyerhaeuser pulp business integration costs | — | — | 6 | 4 | — | — |
| Business Segments Total | 133 | 89 | 23 | 15 | 35 | 25 |
| Corporate | | | | | | |
| Smurfit-Kappa acquisition proposal costs | — | — | — | — | 12 | 9 |
| Environmental remediation reserve adjustment | 9 | 7 | — | — | — | — |
| Corporate Total | 9 | 7 | — | — | 12 | 9 |
| Total special items | 142 | 96 | 23 | 15 | 47 | 34 |
| Non-operating pension expense | 25 | 19 | 33 | 20 | 36 | 27 |
| Total special items and non-operating pension expense | \$167 | \$115 | \$56 | \$35 | \$83 | \$61 |

Special items include the following tax expenses (benefits):

| In millions | Three Months Ended | | |
|--|--------------------|------|----------|
| | September 30, | | June 30, |
| | 2018 | 2017 | 2018 |
| State income tax legislative changes | \$— | \$— | \$9 |
| International legal entity restructuring | — | 19 | — |
| Tax benefits from Tax Cuts and Jobs Act | (36) | — | — |
| Total | \$(36) | \$19 | \$9 |

Table of Contents

Details of special items and non-operating pension expense for the nine months ended are as follows:

| In millions | Nine Months Ended September 30, 2018 | | 2017 | |
|--|--|-----------|------------|-----------|
| | Before Tax | After Tax | Before Tax | After Tax |
| Business Segments | | | | |
| EMEA Packaging optimization | \$ 48 | \$ 35 | \$ — | \$ — |
| Abandoned property removal | 24 | 18 | 14 | 9 |
| Riverdale mill conversion | 5 | 4 | — | — |
| Brazil Packaging impairment | 122 | 81 | — | — |
| Kleen Products anti-trust class action lawsuit settlement | — | — | 354 | 219 |
| Weyerhaeuser pulp business acquisition inventory fair value step-up amortization | — | — | 14 | 8 |
| Weyerhaeuser pulp business acquisition and integration costs | — | — | 15 | 9 |
| Holmen mill bargain purchase gain | — | — | (6) | (6) |
| Brazil Packaging wood supply accelerated amortization | — | — | 10 | 7 |
| Business Segments Total | 199 | 138 | 401 | 246 |
| Corporate | | | | |
| Smurfit-Kappa acquisition proposal costs | 12 | 9 | — | — |
| India Packaging business evaluation write-off | — | — | (2) | (2) |
| Legal settlement | 9 | 7 | — | — |
| Environmental remediation | 9 | 7 | — | — |

| | | | | |
|---|--------|--------|--------|--------|
| reserve adjustment | | | | |
| Gain of sale of investment in ArborGen | — | — | (14) | (9) |
| Foodservice Asia impairment | — | — | 9 | 4 |
| Interest income related to income tax refund claim | — | — | (4) | (2) |
| Corporate Total | 30 | 23 | (11) | (9) |
| Total special items | 229 | 161 | 390 | 237 |
| Non-operating pension expense | 65 | 49 | 98 | 60 |
| Total special items and non-operating pension expense | \$ 294 | \$ 210 | \$ 488 | \$ 297 |

Special items include the following tax expenses (benefits):

| | | |
|---|---------------------------------|--------|
| | Nine Months Ended September 30, | |
| In millions | 2018 | 2017 |
| Income tax refund claims | \$— | \$(85) |
| State income tax legislative changes | 9 | — |
| Tax benefits from Tax Cuts and Jobs Act | (36) | — |
| Pension contribution return to accrual | — | 38 |
| International investment restructuring | — | 34 |
| Total | \$(27) | \$(13) |

BUSINESS SEGMENT OPERATING RESULTS

The following tables present net sales and operating profit (loss) which is the Company's measure of segment profitability. The tables include a detail of special items in each year, where applicable, in order to show operating profit before special items. The Company calculates Operating Profit Before Special Items (non-GAAP) by excluding the pre-tax effect of items considered by management to be unusual from the earnings reported under U.S. generally accepted accounting principles ("GAAP"). Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. International Paper believes that using this information, along with net earnings, provides for a more complete analysis of the results of operations by quarter. Net

Table of Contents

earnings attributable to International Paper is the most directly comparable GAAP measure. See Note 20 - Business Segment Information in the Condensed Notes to the Consolidated Financial Statements for the GAAP reconciliation of segment operating profit.

Industrial Packaging

| Total Industrial Packaging | 2018 | | | 2017 | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| Sales | \$4,034 | \$4,022 | \$11,883 | \$3,822 | \$3,785 | \$11,184 |
| Operating Profit | \$472 | \$537 | \$1,446 | \$490 | \$64 | \$938 |
| Holmen mill bargain purchase gain | — | — | — | — | — | (6) |
| Kleen Products anti-trust settlement | — | — | — | — | 354 | 354 |
| Abandoned property removal | 4 | 6 | 15 | 5 | 3 | 9 |
| EMEA Packaging optimization | — | 26 | 48 | — | — | — |
| Brazil Packaging impairment | 122 | — | 122 | — | \$— | \$— |
| Brazil Packaging wood supply accelerated amortization | — | — | — | 10 | — | 10 |
| Operating Profit Before Special Items | \$598 | \$569 | \$1,631 | \$505 | \$421 | \$1,305 |

Industrial Packaging net sales for the third quarter of 2018 were about even with the second quarter of 2018 and were 6% higher than in the third quarter of 2017. Operating profit before special items was 5% higher in the third quarter of 2018 than in the second quarter of 2018 and 18% higher than in the third quarter of 2017.

| North American Industrial Packaging | 2018 | | | 2017 | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| Sales (a) | \$3,653 | \$3,582 | \$10,604 | \$3,383 | \$3,336 | \$9,874 |
| Operating Profit | \$618 | \$574 | \$1,651 | \$487 | \$51 | \$899 |
| Kleen Products anti-trust settlement | — | — | — | — | 354 | 354 |
| Abandoned property removal | 4 | 6 | 15 | 5 | 3 | 9 |
| Operating Profit Before Special Items | \$622 | \$580 | \$1,666 | \$492 | \$408 | \$1,262 |

Includes intra-segment sales of \$74 million and \$50 million for the three months ended September 30, 2018 and (a)2017, respectively; \$46 million and \$31 million for the three months ended June 30, 2018 and 2017, respectively; and \$178 million and \$113 million for the nine months ended September 30, 2018 and 2017, respectively.

North American Industrial Packaging sales volumes for boxes in the third quarter of 2018 were slightly seasonally lower on a daily basis than in the second quarter of 2018 and include one less shipping day. Containerboard shipments to export markets increased as the mills recovered from production constraints experienced in the second quarter. Total planned maintenance downtime was 161,000 tons in the 2018 third quarter, an increase of 7,000 tons from 154,000 tons in the 2018 second quarter. Average sales margins for boxes were higher reflecting the continuing realization of Spring 2018 sales price increases. Average sales prices for containerboard also continued to increase in both the domestic and export markets. Input costs were higher, primarily for recycled fiber, wood and freight. Planned maintenance downtime costs were \$46 million lower in the 2018 third quarter compared with the 2018 second quarter. Manufacturing operating costs were seasonally higher.

Compared with the third quarter of 2017, sales volumes for boxes were higher in the third quarter of 2018 due to market demand growth and one more shipping day. Sales volumes for containerboard were relatively flat in the domestic market, but grew in the export markets. Total planned maintenance downtime was 76,000 tons higher in the 2018 third quarter than in the 2017 third quarter. Average sales margins for boxes increased significantly, primarily due to higher average sales prices. Average sales prices were also higher for containerboard exports, reflecting sales price increases implemented during 2017 and 2018. Input costs for recycled fiber were lower, but were partially offset by higher costs for freight, wood and chemicals. Planned maintenance downtime costs were \$27 million higher in the third quarter of 2018 compared with the third quarter of 2017. Manufacturing operating costs were higher, largely due

to inflation.

Entering the fourth quarter of 2018, sales volumes for boxes are expected to be about flat overall with higher daily volumes, but two fewer shipping days. Containerboard export shipments are expected to increase slightly. Input costs are projected to be generally flat. Planned maintenance downtime costs should be \$57 million lower in the 2018 fourth quarter than in the 2018 third quarter.

38

Table of Contents

| EMEA Industrial Packaging | 2018 | | | 2017 | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| Sales | \$311 | \$344 | \$1,017 | \$333 | \$341 | \$991 |
| Operating Profit | \$(37) | \$(43) | \$(114) | \$(5) | \$5 | \$14 |
| EMEA Packaging optimization | — | 26 | 48 | — | — | — |
| Holmen mill net bargain purchase gain | — | — | — | — | — | (6) |
| Operating Profit Before Special Items | \$(37) | \$(17) | \$(66) | \$(5) | \$5 | \$8 |

EMEA Industrial Packaging sales volumes for boxes in the third quarter of 2018 were seasonally lower than in the second quarter of 2018 primarily in the fruit and vegetable segment in Morocco and Spain. Average sales prices improved, but margins remained squeezed due to higher containerboard costs. Operating profit continues to be negatively impacted by costs associated with the Madrid mill conversion to recycled containerboard production. Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 were lower due to a weak fruit and vegetable season in the Euro-zone, although sales volumes were higher in Morocco. Average sales prices for boxes increased, but were offset by higher containerboard costs. Operating costs were unfavorably impacted by inflation, particularly in Morocco and Turkey. Also, compared with the third quarter of 2017, operating profit declined due to the absence of newsprint sales and operating profit from the Madrid mill in addition to the conversion costs incurred in the third quarter of 2018.

Looking ahead to the fourth quarter of 2018, sales volumes are expected to reflect seasonally stronger demand in the fruit and vegetable box segment, primarily in Morocco. Operating costs for the box business should be lower as the benefits of optimization initiatives begin to be realized, and start-up costs at the Madrid mill are lower than in the third quarter.

| Brazilian Industrial Packaging | 2018 | | | 2017 | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| Sales | \$57 | \$56 | \$175 | \$68 | \$60 | \$187 |
| Operating Profit | \$(127) | \$(11) | \$(146) | \$(13) | \$(6) | \$(29) |
| Brazil Packaging impairment | 122 | — | 122 | — | — | — |
| Brazil Packaging wood supply accelerated amortization | — | — | — | 10 | — | 10 |
| Operating Profit Before Special Items | \$(5) | \$(11) | \$(24) | \$(3) | \$(6) | \$(19) |

Brazilian Industrial Packaging sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were higher for boxes, but lower for containerboard. Average sales margins were flat as the benefit from higher box sales prices was offset by an unfavorable product mix. Planned maintenance downtime costs were \$1 million lower in the third quarter of 2018 than in the second quarter of 2018. Operating costs were lower, while input costs were slightly higher, primarily for utilities. Earnings in the third quarter of 2018 were higher than the second quarter of 2018 due to the the absence of the nationwide truckers' strike that occurred in the second quarter.

Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 were higher for boxes, but lower for containerboard. Average sales prices increased for boxes, but the benefit was partially offset by an unfavorable product mix. Input costs were higher, primarily for recycled fiber and utilities. Operating costs increased mainly due to inflation.

Looking ahead to the fourth quarter of 2018, sales volumes for boxes are expected to be lower, while containerboard volumes should be higher. Average sales margins are expected to be slightly higher due to a more favorable product mix. Input costs are projected to be higher for recycled fiber.

| European Coated Paperboard 2018 | 2017 | | |
|---------------------------------|-------------|-------------|-------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months |
| Sales | \$87 | \$86 | \$265 |
| Operating Profit | \$18 | \$17 | \$55 |

European Coated Paperboard sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were higher in both Europe and Russia. Average sales prices decreased in both regions due to unfavorable mix. Input costs were higher, mainly in Europe for energy, chemicals and purchased fiber. Distribution costs also increased. Planned maintenance downtime costs were \$4 million lower in the third quarter of 2018, which included no outages, compared with the second quarter of 2018. Mill operating costs were higher. Compared with the third quarter of 2017, sales volumes decreased in Europe, but increased in Russia. However, average sales margins increased in both regions due to higher average sales prices and a favorable mix. Input costs for wood, energy and

Table of Contents

chemicals increased in both Europe and Russia, and in Europe purchased fiber prices also increased. Mill operating costs were higher.

Entering the fourth quarter of 2018, sales volumes are expected to be about flat in Russia and are subject to competitive pressure in Europe. Average sales prices are expected to be stable in both Europe and Russia. Input costs are expected to increase primarily for wood and energy in Russia and for purchased fiber in Europe. In addition, earnings should benefit by \$2 million from the anticipated receipt of an insurance payment related to the Kwidzyn fire.

Global Cellulose Fibers

| Total Global Cellulose Fibers | 2018 | | | 2017 | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| Sales | \$714 | \$ 692 | \$ 2,083 | \$654 | \$ 612 | \$1,830 |
| Operating Profit | \$83 | \$ 66 | \$ 160 | \$49 | \$ 7 | \$(14) |
| Acquisition and integration costs | — | — | — | 6 | 5 | 15 |
| Inventory fair value step-up amortization | — | — | — | — | — | 14 |
| Abandoned property removal | 2 | 3 | 9 | 2 | — | 3 |
| Operating Profit Before Special Items | \$85 | \$ 69 | \$ 169 | \$57 | \$ 12 | \$18 |

Global Cellulose Fibers net sales were 3% higher in the third quarter of 2018 than in the second quarter of 2018 and 9% higher than in the third quarter of 2017. Operating profit before special items was 23% higher in the third quarter of 2018 than in the second quarter of 2018 and 49% higher than in the third quarter of 2017.

Sales volumes in the third quarter of 2018, excluding the impact of Hurricane Florence, increased compared with the second quarter of 2018 as demand remains strong. Sales margins benefited from higher average sales prices across all product lines and regions and a more favorable product mix. Input costs, primarily for energy, were slightly higher. Planned maintenance downtime costs in the third quarter of 2018 were \$5 million lower than in the second quarter of 2018. Earnings were negatively impacted by about \$28 million for costs and lost sales related to Hurricane Florence. In Russia, sales volumes were higher, but in Europe, sales volumes were slightly lower due to operational issues at the Saillat mill. Average sales prices were higher in both regions. With no planned maintenance outages in the third quarter of 2018 in both Europe and Russia, associated costs were \$8 million lower than in the previous quarter. Manufacturing costs were favorable in Europe, but other operating costs were unfavorable in both Europe and Russia. Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 were about flat. Average sales prices improved significantly across all product lines reflecting the realization of price increases. Input costs were higher primarily for chemicals and wood, while distribution costs also increased. Planned maintenance downtime costs in the third quarter of 2018 were \$17 million higher than in the third quarter of 2017. Earnings in 2018 include the impact of Hurricane Florence. In Europe, sales volumes decreased, but in Russia sales volumes increased. Average sales margins improved significantly, reflecting higher average sales prices and a favorable geographical mix. Input costs were higher, primarily for energy and chemicals in Europe and for wood in Russia.

Entering the fourth quarter of 2018, sales volumes are expected to increase and recover from the Hurricane Florence impact in the third quarter. Market demand remains strong although shipments to China may be adversely impacted by trade tensions. Average sales prices are expected to include the continued realization of price increases for absorbents and paper grade pulp. Input costs are expected to be flat. Planned maintenance downtime costs in the fourth quarter of 2018 should be \$3 million higher than in the third quarter of 2018. The impact from Hurricane Florence in the fourth quarter is estimated to be about \$14 million primarily for infrastructure repair and higher distribution costs. In Europe, sales volumes are expected to increase as production issues are resolved, although market demand is expected to begin to soften. Sales volumes are forecasted to decrease slightly in Russia. Average sales margins in Europe and Russia should be stable.

Printing Papers

| Total Printing Papers | 2018 | | | 2017 | | |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |

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| | | | | | | |
|---------------------------------------|---------|----------|----------|---------|----------|----------|
| Sales | \$1,102 | \$ 1,060 | \$ 3,215 | \$1,039 | \$ 1,017 | \$ 3,051 |
| Operating Profit | \$183 | \$ 94 | \$ 341 | \$135 | \$ 86 | \$ 321 |
| Abandoned property removal | — | — | — | — | 2 | 2 |
| Riverdale mill conversion | 5 | — | 5 | — | — | — |
| Operating Profit Before Special Items | \$188 | \$ 94 | \$ 346 | \$135 | \$ 88 | \$ 323 |

40

Table of Contents

Printing Papers net sales for the third quarter of 2018 were 4% higher than in the second quarter of 2018 and 6% higher than in the third quarter of 2017. Operating profit before special items in the third quarter of 2018 was 100% higher than in the second quarter of 2018 and 39% higher than in the third quarter of 2017.

| North American Papers | 2018 | | | 2017 | | |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| In millions | | | | | | |
| Sales | \$492 | \$ 493 | \$ 1,443 | \$470 | \$ 446 | \$ 1,384 |
| Operating Profit | \$59 | \$ 25 | \$ 85 | \$54 | \$ 19 | \$ 106 |
| Abandoned property removal | — | — | — | — | 2 | 2 |
| Riverdale mill conversion | 5 | — | 5 | — | — | — |
| Operating Profit Before Special Items | \$64 | \$ 25 | \$ 90 | \$54 | \$ 21 | \$ 108 |

North American Papers sales volumes in the third quarter of 2018 were lower than in the second quarter of 2018 reflecting the impact of Hurricane Florence and production constraints at our mills. Average sales prices were higher due to the continuing realization of sales price increases. Input costs were higher for wood and chemicals. Planned maintenance downtime costs were \$23 million lower in the third quarter of 2018, compared with the second quarter of 2018. Operating costs included \$6 million related to Hurricane Florence, but were otherwise favorable.

Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 were lower due to a planned inventory build coupled with production constraints. Average sales prices were higher reflecting the impact of price increases in late 2017 and in 2018. Average sales margins were favorably affected by an improved geographic mix, partially offset by an unfavorable mill sourcing mix. Input costs increased, primarily for chemicals, energy and wood. Planned maintenance downtime costs were \$5 million higher than in the third quarter of 2017. Operating costs were higher due primarily to inflation, distribution costs and the impact of Hurricane Florence.

Entering the fourth quarter of 2018, sales volumes are expected to be slightly higher due to the resolution of the third-quarter production issues. Average sales price realizations for uncoated freesheet paper should reflect continuing realization of sales price increases announced in the third quarter. Input costs are expected to be flat, while operating costs should be lower with the absence of the impact of Hurricane Florence. Planned maintenance downtime costs should be \$4 million higher in the fourth quarter.

| European Papers | 2018 | | | 2017 | | |
|------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| In millions | | | | | | |
| Sales | \$311 | \$ 302 | \$ 932 | \$292 | \$ 299 | \$ 865 |
| Operating Profit | \$46 | \$ 15 | \$ 82 | \$38 | \$ 26 | \$ 93 |

European Papers sales volumes for uncoated freesheet paper in the third quarter of 2018 compared with the second quarter of 2018 were higher in Europe reflecting the absence of production constraints experienced in the second quarter, but slightly lower in Russia despite stable market demand. Average sales margins for uncoated freesheet paper increased in both regions due to the realization of sales price increases for cut-size paper. Input costs were higher, primarily for energy, purchased pulp and chemicals in Europe. Planned maintenance downtime costs were \$18 million lower in the third quarter of 2018 which included no outages. Operating costs were lower as the Kwidzyn mill recovered from the fire that occurred in the first quarter.

Sales volumes for uncoated freesheet paper in the third quarter of 2018 compared with the third quarter of 2017 were higher in Europe, but lower in Russia mainly due to timing. Average sales prices for uncoated freesheet paper increased in both regions reflecting increases implemented in late 2017 and in 2018. Input costs, primarily for wood in Russia and for purchased pulp, wood, chemicals and energy in Europe, were higher. Mill operating costs were also higher due to mill inefficiencies.

Looking forward to the fourth quarter of 2018, sales volumes for uncoated freesheet paper are expected to increase in both Europe and Russia. Average sales prices should be higher in Europe and in Russia due to the realization of third-quarter price increases. Input costs are expected to increase in Russia, primarily for wood and energy, but decrease in Europe as lower wood costs are partially offset by higher energy and purchased pulp costs. Manufacturing operating costs are expected to be favorable. In addition, earnings should benefit by \$2 million from the anticipated

receipt of an insurance payment related to the Kwidzyn fire.

| Brazilian Papers 2018 | | | | 2017 | | |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| In millions | 3rd Quarter | 2nd Quarter | Nine Months | 3rd Quarter | 2nd Quarter | Nine Months |
| Sales (a) | \$255 | \$ 222 | \$ 706 | \$239 | \$ 232 | \$ 685 |
| Operating Profit | \$75 | \$ 49 | \$ 164 | \$46 | \$ 43 | \$ 128 |

Table of Contents

Includes intra-segment sales of \$3 million and \$6 million for the three months ended September 30, 2018 and 2017, (a) respectively; \$8 million and \$7 million for the three months ended June 30, 2018 and 2017, respectively; and \$16 million and \$22 million for the nine months ended September 30, 2018 and 2017, respectively.

Brazilian Papers sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were higher due to seasonally stronger demand for uncoated freesheet paper and the absence of the nationwide truckers' strike that occurred in the second quarter. Average sales margins increased due to higher average sales prices for domestic and export uncoated freesheet papers and a favorable geographic mix. Input costs increased for wood, purchased pulp and chemicals. There were no planned maintenance outage costs in the third quarter of 2018 compared with \$4 million in the second quarter of 2018. Operating costs were also lower.

Compared with the third quarter of 2017, sales volumes for uncoated freesheet paper in the third quarter of 2018 were higher for exports, reflecting increased demand, but lower in the domestic market. Average sales margins improved significantly due to higher average sales prices, both domestically and abroad. Input costs were higher, primarily for purchased pulp, chemicals and energy, while operating costs were lower.

Entering the fourth quarter of 2018, sales volumes for uncoated freesheet paper are expected to be seasonally stronger in the domestic market and about flat in export markets. Input costs are expected to increase for wood, purchased pulp and energy.

| Indian Papers | 2018 | | | 2017 | | |
|------------------|---------|---------|--------|---------|---------|--------|
| | 3rd | 2nd | Nine | 3rd | 2nd | Nine |
| In millions | Quarter | Quarter | Months | Quarter | Quarter | Months |
| Sales | \$47 | \$ 51 | \$ 150 | \$44 | \$ 47 | \$ 139 |
| Operating Profit | \$3 | \$ 5 | \$ 10 | \$(3) | \$(2) | \$(6) |

Indian Papers sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were lower due to production constraints associated with the planned maintenance outage at the Rajahmundry mill. Average sales prices were higher due to growing demand for uncoated freesheet paper and stable economic conditions. Planned maintenance downtime costs in the third quarter of 2018 were \$1 million higher than in the second quarter of 2018. Raw material costs also increased.

Compared with the third quarter of 2017, which included the impact of a contract workers' strike, sales volumes in the third quarter of 2018 were higher. Average sales prices increased. Operating costs were lower, reflecting improved mill productivity, while input costs were higher for chemicals and fuel, partially offset by lower wood costs.

Looking ahead to the fourth quarter of 2018, sales volumes are expected to improve with seasonally stronger demand and the absence of planned maintenance outages. Average sales prices should be slightly higher due to the further realization of previous price increases. Input costs are expected to be higher. There are no planned maintenance outages in the fourth quarter of 2018.

Equity Earnings, Net of Taxes – Ilim

Since October 2007, International Paper has had a 50% equity interest in Ilim Holding S.A. (Ilim), which operates in Russia through its subsidiaries. The Ilim joint venture is a separate reportable industry segment. The Company recorded equity earnings, net of taxes, of \$74 million in the third quarter of 2018, compared with \$57 million in the second quarter of 2018 and \$48 million in the third quarter of 2017. In the third quarter of 2018, the after-tax foreign exchange impact, primarily on the remeasurement of U.S. dollar-denominated net debt, was a loss of \$23 million compared with a loss of \$39 million in the second quarter of 2018.

Compared with the second quarter of 2018, sales volumes in the third quarter of 2018 were 5% lower, primarily for sales of softwood pulp in China and other export markets, partially offset by higher sales of hardwood pulp in China and Russia, and higher sales of containerboard in Russia. Average sales prices were higher, primarily for containerboard in all markets, partially offset by lower prices in China for softwood and hardwood pulp. In the third quarter of 2018, input costs primarily for wood and fuel were higher. Planned annual maintenance costs were also higher in the third quarter.

Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 increased overall by 2%, primarily for sales of softwood pulp and containerboard in China, partially offset by lower sales of hardwood pulp in China. In Russia, sales volumes were higher for softwood pulp and hardwood pulp, while containerboard sales were lower.

Average sales price realizations were higher for softwood pulp, hardwood pulp and containerboard in all markets. Input costs, primarily for wood and fuel were higher. Distribution costs were also higher. An after-tax foreign exchange gain of \$7 million primarily on the remeasurement of U.S. dollar denominated net debt was recorded in the third quarter of 2017.

Looking forward to the fourth quarter of 2018, sales volumes are expected to be higher. Average sales price realizations are projected to decrease compared with the third quarter of 2018, primarily for softwood and hardwood pulp. Input costs are expected to be seasonally higher. Planned maintenance mill outage costs will be significantly lower.

Table of Contents

Equity Earnings – GPI

International Paper recorded equity earnings of \$19 million on its 20.5% ownership position in GPI in the third quarter of 2018 compared with \$15 million in the second quarter of 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled \$2.4 billion for the first nine months of 2018, compared with \$569 million for the comparable 2017 nine-month period. Cash used for working capital components totaled \$249 million for the first nine months of 2018 compared to \$567 million for the comparable 2017 nine-month period.

Investments in capital projects totaled \$1.3 billion in the first nine months of 2018 compared to \$935 million in the first nine months of 2017. Full-year 2018 capital spending is currently expected to be approximately \$1.6 billion, or about 119% of depreciation and amortization expense for our current businesses.

Financing activities for the first nine months of 2018 included a \$107 million net increase in debt versus a \$997 million net increase in debt during the comparable 2017 nine-month period.

Amounts related to early debt extinguishment during the three months and nine months ended September 30, 2018 and 2017 were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|-------|---|--------|
| In millions | 2018 | 2017 | 2018 | 2017 |
| Early debt reductions (a) | \$ 75 | \$ 95 | \$ 79 | \$ 122 |
| Pre-tax early debt extinguishment costs | 1 | 2 | 1 | 2 |

Reductions related to notes with interest rates ranging from 3.00% to 7.00% with original maturities from 2022 to 2032 and from 4.63% to 6.63% with original maturities from 2018 to 2031 for the three months ended September (a) 30, 2018 and 2017, respectively, and from 3.00% to 7.00% with original maturities from 2022 to 2032 and from 1.57% to 6.63% with original maturities from 2018 to 2031 for the nine months ended September 30, 2018 and 2017, respectively.

At September 30, 2018, contractual obligations for future payments of debt maturities by calendar year were as follows: \$415 million in 2018; \$135 million in 2019; \$86 million in 2020; \$445 million in 2021; \$907 million in 2022; \$349 million in 2023; and \$8.9 billion thereafter.

Maintaining an investment-grade credit rating is an important element of International Paper's financing strategy. At September 30, 2018, the Company held long-term credit ratings of BBB (stable outlook) and Baa2 (stable outlook) by S&P and Moody's, respectively. In addition, the Company held short-term credit ratings of A2 and P2 by S&P and Moody's, respectively, for borrowings during the current quarter under the Company's commercial paper program. At September 30, 2018, International Paper's credit agreements totaled \$2.1 billion, which management believes are adequate to cover expected operating cash flow variability during the current economic cycle. The credit agreements generally provide for interest rates at a floating rate index plus a pre-determined margin dependent upon International Paper's credit rating. The liquidity facilities include a \$1.5 billion contractually committed bank credit agreement that expires in December 2021 and has a facility fee of 0.15% per annum payable quarterly. The liquidity facilities also include up to \$600 million of uncommitted financings based on eligible receivable balances under a receivables securitization program that expires in December 2018. At September 30, 2018, there were no borrowings outstanding under either the bank facility or receivables securitization program.

In June 2016, International Paper entered into a commercial paper program with a borrowing capacity of \$750 million. In June 2018, the borrowing capacity of the commercial paper program was increased to \$1.0 billion. Under the terms of the program, individual maturities on borrowings may vary, but not exceed one year from the date of issue. Interest bearing notes may be issued either as fixed notes or floating rate notes. As of September 30, 2018, the Company had \$400 million of borrowings outstanding under this program at a weighted average interest rate of 2.34%.

During the first nine months of 2018, International Paper used 1.7 million shares of treasury stock for various incentive plans. International Paper also acquired 9.6 million shares of treasury stock, including restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled \$532 million. In September 2013, the Company announced a share repurchase program to acquire up to \$1.5 billion of the Company's common stock in open market repurchase transactions. In July 2014, the Company announced that it would acquire up to \$1.5 billion of additional shares. In addition, on October 9, 2018, the Company's board of directors approved an authorization to repurchase another \$2 billion of the Company's common stock to supplement the share repurchase programs authorized in September 2013 and July 2014. The Company will continue to repurchase such shares in open market repurchase transactions. Under the original combined \$3.0 billion share repurchase programs, the Company has repurchased 53.6 million shares at an average price of \$47.87, for a total of approximately \$2.6 billion, as of September 30, 2018.

Table of Contents

During the first nine months of 2017, International Paper used approximately 2.6 million shares of treasury stock for various incentive plans. International Paper also acquired 0.9 million shares of treasury stock, including shares for the payment of restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled \$46 million. Cash dividend payments related to common stock totaled \$588 million and \$573 million for the first nine months of 2018 and 2017, respectively. Dividends were \$1.4250 per share and \$1.3875 per share for the first nine months in 2018 and 2017, respectively.

International Paper expects to be able to meet projected capital expenditures, service existing debt and meet working capital and dividend requirements during the remainder of 2018 with current cash balances and cash from operations, supplemented as required by its existing credit facilities. The Company will continue to rely on debt and capital markets for the majority of any necessary long-term funding not provided by operating cash flows. Funding decisions will be guided by our capital structure planning objectives. The primary goals of the Company's capital structure planning are to maximize financial flexibility and preserve liquidity while reducing interest expense. The majority of International Paper's debt is accessed through global public capital markets where we have a wide base of investors.

Acquisitions

See discussion in Note 8 - Acquisitions in the Condensed Notes to the Consolidated Financial Statements.

Ilim Holding S.A. Shareholders' Agreement

In October 2007, in connection with the formation of the Ilim Holding S.A. joint venture (Ilim), International Paper entered into a shareholder's agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time, either the Company or its partners may commence procedures specified under the deadlock agreement. If these or any other deadlock procedures under the shareholder's agreement are commenced, although it is not obligated to do so, the Company may in certain situations choose to purchase its partners' 50% interest in Ilim. Any such transaction would be subject to review and approval by Russian and other relevant anti-trust authorities. Based on the provisions of the agreement, the Company estimates that the current purchase price for its partners' 50% interests would be approximately \$2.3 billion, which could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company's option. The purchase by the Company of its partners' 50% interest in Ilim would result in the consolidation of Ilim's financial position and results of operations in all subsequent periods. The parties have informed each other that they have no current intention to commence procedures specified under the deadlock provisions of the shareholder's agreement.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires International Paper to establish accounting policies and to make estimates that affect both the amounts and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Accounting policies whose application may have a significant effect on the reported results of operations and financial position of International Paper, and that can require judgments by management that affect their application, include accounting for contingencies, impairment or disposal of long-lived assets, goodwill and other intangible assets, pensions, postretirement benefits other than pensions, income taxes and business combinations.

The Company has included in its 2017 Form 10-K a discussion of these critical accounting policies, which are important to the portrayal of the Company's financial condition and results of operations and require management's judgments. The Company has not made any changes in these critical accounting policies during the first nine months of 2018, other than a change in the accounting for revenue recognition prescribed under ASC 606, which is referenced in Note 2 - Recent Accounting Developments in the Condensed Notes to the Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q that are not historical in nature may be considered "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words, "will," "may," "should," "continue," "anticipate," "believe," "expect," "plan," "project," "estimate," "intend," and words of a similar nature. These statements are not guarantees of future performance and reflect management's current views with respect to future events, which are subject to risks and uncertainties that could

cause actual results to differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include but are not limited to: (i) the level of our indebtedness and changes in interest rates; (ii) industry conditions, including but not limited to changes in the cost or availability of raw materials, energy and transportation costs, competition we face, cyclicalities and changes in consumer preferences, demand and pricing for our products; (iii) global economic conditions and political changes, including but not limited to trade protection measures, the impairment of financial institutions, changes in currency

Table of Contents

exchange rates, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation, changes in tax laws and pension and health care costs; (iv) unanticipated expenditures related to the cost of compliance with existing and new environmental and other governmental regulations and to actual or potential litigation; (v) whether we experience a material disruption at one of our manufacturing facilities; (vi) risks inherent in conducting business through joint ventures; (vii) our ability to achieve the benefits we expect from strategic acquisitions, divestitures, restructurings and capital investments, and (viii) other factors you can find in our press releases and filings with the Securities and Exchange Commission, including the risk factors identified in Item 1A of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as updated in Item 1A of Part II of this Quarterly Report on Form 10-Q ("Risk Factors"). We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to quantitative and qualitative disclosures about market risk is shown on pages 35 and 36 of International Paper's 2017 Form 10-K, which information is incorporated herein by reference. There have been no material changes in the Company's exposure to market risk since December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported (and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure) within the time periods specified in the Securities and Exchange Commission's rules and forms. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018 (the end of the period covered by this report).

Changes in Internal Control over Financial Reporting:

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A discussion of material developments in the Company's litigation matters occurring in the period covered by this report is found in Note 14 of the Condensed Notes to the Consolidated Financial Statements in this Form 10-Q.

Additionally, in the third quarter of 2018, the Company received a natural resource damages penalty assessment of RUB 18.8 million (approximately \$275,000) arising from the Company's voluntary disclosure of mercury contamination identified in sediment in a river tributary that traverses the site of the Company's mill in Svetogorsk, Russia. The mercury contamination is associated with a former manufacturing facility located on the Svetogorsk mill site. The Company is cooperating with the Russian government to resolve the matter.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (Part I, Item 1A).

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

| Period | Total Number of Shares Purchased (a) | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in billions) |
|--|--|---------------------------------------|--|--|
| July 1, 2018 - July 31, 2018 | 71,805 | \$51.96 | 69,394 | \$0.629 |
| August 1, 2018 - August 31, 2018 | 2,431,910 | 52.27 | 2,422,856 | 0.503 |
| September 1, 2018 - September 30, 2018 | 1,350,668 | 51.68 | 1,349,679 | 0.433 |
| Total | 3,854,383 | | | |

(a) 12,455 shares were acquired from employees from share withholdings to pay income taxes under the Company's restricted stock programs. The remainder were purchased under a share repurchase program that was approved by our Board of Directors and announced on July 8, 2014. Through this program, which does not have an expiration date, we were authorized to purchase, in open market transactions (including block trades), privately negotiated transactions or otherwise, up to \$1.5 billion of shares of our common stock. There is approximately \$433 million that may yet be purchased under the authorization at September 30, 2018. On October 9, 2018, the Board of Directors approved an additional \$2.0 billion of share repurchases.

Table of Contents

ITEM 6. EXHIBITS

- 10.1 Commitment Agreement, dated September 25, 2018, between International Paper Company and Prudential Insurance Company of America, relating to the Retirement Plan of International Paper Company.*
- 10.2 Termination Agreement and Release date July 6, 2018, and executed July 23, 2018, between International Paper Company and Glenn R. Landau (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K/A filed on July 27, 2018).
- 10.3 Letter to Glenn R. Landau dated July 23, 2018 (incorporate by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K/A filed on July 27, 2018).
- 11 Statement of Computation of Per Share Earnings.
- 12 Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
- 31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Extension Presentation Linkbase.

* Confidential treatment has been requested for certain information pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

Table of Contents

SIGNATURES

Pursuant to the requirements 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

(Registrant)

November 2, 2018 By/s/ Tim S. Nicholls

Tim S. Nicholls

Senior Vice President and Chief

Financial Officer

November 2, 2018 By/s/ Vincent P. Bonnot

Vincent P. Bonnot

Vice President – Finance and Controller