

INTERNATIONAL PAPER CO /NEW/  
Form 10-K  
February 26, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 for the fiscal year ended December 31, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York

13-0872805

(State or other jurisdiction of incorporation or  
organization)

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

6400 Poplar Avenue

Memphis, Tennessee

(Address of principal executive offices)

38197

(Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$1 per share par value

New York Stock Exchange

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Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The aggregate market value of the Company’s outstanding common stock held by non-affiliates of the registrant, computed by reference to the closing price as reported on the New York Stock Exchange, as of the last business day of the registrant’s most recently completed second fiscal quarter (June 30, 2012) was approximately \$12,533,753,892. The number of shares outstanding of the Company’s common stock as of February 21, 2013 was 441,207,804.

Documents incorporated by reference:

Portions of the registrant’s proxy statement filed within 120 days of the close of the registrant’s fiscal year in connection with registrant’s 2013 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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PART I.

ITEM 1. BUSINESS

GENERAL

International Paper Company (the “Company” or “International Paper,” which may also be referred to as “we” or “us”) is a global paper and packaging company that is complemented by an extensive North American merchant distribution system, with primary markets and manufacturing operations in North America, Europe, Latin America, Russia, Asia and North Africa. We are a New York corporation, incorporated in 1941 as the successor to the New York corporation of the same name organized in 1898. Our home page on the Internet is [www.internationalpaper.com](http://www.internationalpaper.com). You can learn more about us by visiting that site.

In the United States at December 31, 2012, the Company operated 28 pulp, paper and packaging mills, 187 converting and packaging plants, 18 recycling plants and three bag facilities. Production facilities at December 31, 2012 in Europe, Asia, Latin America and South America included 11 pulp, paper and packaging mills, 65 converting and packaging plants, and two recycling plants. We distribute printing, packaging, graphic arts, maintenance and industrial products principally through over 88 distribution branches in the United States and 32 distribution branches located in Canada, Mexico and Asia. At December 31, 2012, we owned or managed approximately 327,000 acres of forestland in Brazil and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to industry capacity and general economic conditions.

For management and financial reporting purposes, our businesses are separated into four segments: Industrial Packaging; Printing Papers; Consumer Packaging; and Distribution. Beginning January 1, 2011, the Forest Products business was no longer reported by the Company as a separate industry segment due to the immateriality of the results of the remaining business on the Company’s consolidated financial statements. A description of these business segments can be found on pages 26 and 27 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations. The Company’s 50% equity interest in Ilim Holding S.A. is also a separate reportable industry segment.

From 2008 through 2012, International Paper’s capital expenditures approximated \$4.9 billion, excluding mergers and acquisitions. These expenditures reflect our continuing efforts to improve product quality and environmental performance, as well as lower costs,

maintain reliability of operations and improve forestlands. Capital spending for continuing operations in 2012 was approximately \$1.4 billion and is expected to be approximately \$1.4 billion in 2013. You can find more information about capital expenditures on page 34 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Discussions of acquisitions can be found on pages 34 and 35 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You can find discussions of restructuring charges and other special items on pages 24 through 26 of Item 7.

Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Throughout this Annual Report on Form 10-K, we “incorporate by reference” certain information in parts of other documents filed with the Securities and Exchange Commission (SEC). The SEC permits us to disclose important information by referring to it in that manner. Please refer to such information. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, along with all other reports and any amendments thereto filed with or furnished to the SEC, are publicly available free of charge on the Investor Relations section of our Internet Web site at [www.internationalpaper.com](http://www.internationalpaper.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on or connected to our Web site is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we filed with or furnished to the SEC.

FINANCIAL INFORMATION CONCERNING INDUSTRY SEGMENTS

The financial information concerning segments is set forth in Note 18 Financial Information by Industry Segment and Geographic Area on pages 86 and 87 of Item 8. Financial Statements and Supplementary Data.

FINANCIAL INFORMATION ABOUT INTERNATIONAL AND U.S. OPERATIONS

The financial information concerning international and U.S. operations and export sales is set forth in Note 18 Financial Information by Industry Segment and Geographic Area on page 87 of Item 8. Financial Statements and Supplementary Data.

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**COMPETITION AND COSTS**

Despite the size of the Company's manufacturing capacity for paper, packaging and pulp products, the markets in all of the cited product lines are large and fragmented. The major markets, both U.S. and non-U.S., in which the Company sells its principal products are very competitive. Our products compete with similar products produced by other forest products companies. We also compete, in some instances, with companies in other industries and against substitutes for wood and wood-fiber products.

Many factors influence the Company's competitive position, including price, cost, product quality and services. You can find more information about the impact of price and cost on operating profits on pages 19 through 32 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. You can find information about the Company's manufacturing capacities on page A-4 of Appendix II.

**MARKETING AND DISTRIBUTION**

The Company sells paper, packaging products and other products directly to end users and converters, as well as through agents, resellers and paper distributors. We own a large merchant distribution business that sells products made both by International Paper and by other companies making paper, paperboard, packaging, graphic arts supplies and maintenance and industrial products. Sales offices are located throughout the United States as well as internationally.

**DESCRIPTION OF PRINCIPAL PRODUCTS**

The Company's principal products are described on pages 26 and 27 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.



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## SALES VOLUMES BY PRODUCT

Sales volumes of major products for 2012, 2011 and 2010 were as follows:

## Sales Volumes by Product (1)

In thousands of short tons	2012	2011	2010
Industrial Packaging			
Corrugated Packaging (2)	10,523	7,424	7,525
Containerboard (2)	3,228	2,371	2,458
Recycling	2,349	2,435	2,486
Saturated Kraft	166	161	176
Gypsum/Release Kraft (2)	135	—	—
Bleached Kraft	114	95	85
European Industrial Packaging	1,032	1,047	1,040
Asian Box (3)	410	444	307
Industrial Packaging	17,957	13,977	14,077
Printing Papers			
U.S. Uncoated Papers	2,617	2,616	2,695
European and Russian Uncoated Papers	1,286	1,218	1,235
Brazilian Uncoated Papers	1,165	1,141	1,081
Indian Uncoated Papers (4)	246	49	—
Printing Papers	5,314	5,024	5,011
Pulp (5)	1,593	1,410	1,422
Consumer Packaging			
U.S. Coated Paperboard	1,507	1,560	1,572
European Coated Paperboard	372	332	351
Asian Coated Paperboard	1,059	998	870
Consumer Packaging	2,938	2,890	2,793

(1) Includes third-party and inter-segment sales and excludes sales of equity investees.

(2) Includes Temple-Inland volumes from date of acquisition in February 2012.

(3) Includes SCA Packaging volumes from date of acquisition in June 2010.

(4) Includes APPM volumes from date of acquisition in October 2011.

(5) Includes internal sales to mills.

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### RESEARCH AND DEVELOPMENT

The Company operates its primary research and development center in Loveland, Ohio, as well as several product laboratories. Additionally, the Company has an interest in ArborGen, Inc., a joint venture with certain other forest products companies.

We direct research and development activities to short-term, long-term and technical assistance needs of customers and operating divisions, and to process, equipment and product innovations. Activities include product development within the operating divisions; studies on innovation and improvement of pulping, bleaching, chemical recovery, papermaking, converting and coating processes; packaging design and materials development; mechanical packaging systems, environmentally sensitive printing inks and reduction of environmental discharges; re-use of raw materials in manufacturing processes; recycling of consumer and packaging paper products; energy conservation; applications of computer controls to manufacturing operations; innovations and improvement of products; and development of various new products. Our development efforts specifically address product safety as well as the minimization of solid waste. The cost to the Company of its research and development operations was \$13 million in 2012, \$13 million in 2011 and \$12 million in 2010.

We own numerous patents, copyrights, trademarks, trade secrets and other intellectual property rights relating to our products and to the processes for their production. We also license intellectual property rights to and from others where necessary. Many of the manufacturing processes are among our trade secrets. Some of our products are covered by U.S. and non-U.S. patents and are sold under well known trademarks. We derive a competitive advantage by protecting our trade secrets, patents, trademarks and other intellectual property rights, and by using them as required to support our businesses.

### ENVIRONMENTAL PROTECTION

International Paper is subject to extensive federal and state environmental regulation as well as similar regulations internationally. Our continuing objectives include: (1) controlling emissions and discharges from our facilities into the air, water and groundwater to avoid adverse impacts on the environment, and (2) maintaining compliance with applicable laws and regulations. A total of \$60 million was spent in 2012 for capital projects to control environmental releases into the air and water, and to assure environmentally sound management and disposal of waste. We expect to spend approximately \$90 million in 2013 for similar capital projects, including expenditures associated with the Environmental Protection Agency's (EPA) Boiler

MACT (maximum achievable control technology) rule. Projected capital expenditures for 2014 environmental capital projects are anticipated to be approximately \$285 million, much of which is associated with the new Boiler MACT rule. Preliminary cost projections for 2015 environmental capital projects are estimated to be \$300 million, much of which is again associated with Boiler MACT. In March 2011, the EPA published four inter-related final rules commonly and collectively referred to as "Boiler MACT." As finalized, these rules required owners of specified boilers to meet very strict air emissions standards for certain substances. The rule was immediately subject to administrative reconsideration by the EPA and several lawsuits. On December 20, 2012, the EPA issued its final reconsidered Boiler MACT suite of rules. International Paper is actively analyzing the rules to determine, among other things, its costs and this process is in its early stages. As such, the projected capital expenditures for environmental capital projects represent our current best estimate of future expenditures with the recognition that the Boiler MACT analysis is in the early stages and subject to change.

In the U.S., the EPA proposed or finalized a number of new rules, including Greenhouse Gas Mandatory Reporting (see Climate Change section), and more restrictive National Ambient Air Quality Standards (NAAQSs). The EPA has promulgated new NAAQSs for nitrogen oxide (NOx) and sulfur dioxide (SO2) and we anticipate that additional NAAQSs will also be forthcoming. Additionally, the EPA published Phase I of its Pulp and Paper National Emission Standard for Hazardous Air Pollutants (NESHAP). To date, these regulations have not had a material impact on International Paper operations. However, once fully implemented these rules could require significant investments of capital and/or operational changes that could potentially have a material impact.

### CLIMATE CHANGE

In 1997, an international conference on global warming concluded with an agreement known as the Kyoto Protocol. The Kyoto Protocol called for reductions of certain emissions that may contribute to increases in atmospheric greenhouse gas concentrations. While the U.S. and many other countries did not ratify the Kyoto Protocol, it has formed the basis for a range of international, national and sub-national proposals and regulations focusing on greenhouse gas reduction. Some of these regulations apply currently or will apply in countries where we currently have, or may in the future have, manufacturing facilities or investments.

Although the Kyoto Protocol expired in 2012, a successor protocol is currently under negotiation at the international level. Several countries or geographic areas in which we operate, such as the EU, India, Brazil,

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China and Morocco, have signaled they intend to continue to participate in an extended Kyoto process. While only the EU had actual emissions caps, some countries are enacting local programs to address climate change. Currently, these local programs do not appear to materially impact IP operations. Russia and the U.S. have not agreed to participate in the post-Kyoto process. Due to the lack of clarity around what post-Kyoto will look like, it is not possible at this time to estimate the potential impacts of future international agreements on International Paper's operations. Under the European Union Emissions Trading System (EUETS), the EU has committed to greenhouse gas reductions.

International Paper has two sites covered by the EUETS. These measures did not have a material effect on our European operations in 2012, nor are they expected to have such an impact in 2013 at current market prices for emission credits. Significant swings in market price associated with credits could impact European operations. The U.S. has not ratified the Kyoto Protocol nor have efforts in the U.S. Congress to legislate the control of greenhouse gas (GHG) emissions been successful. To date, the activity in the U.S. has been spearheaded by the U.S. EPA and, to some extent, by the states. Pursuant to the GHG Mandatory Reporting Rule promulgated in 2009, the EPA began a process to collect data on emitters of greater than 25,000 tons of greenhouse gas per year. Twenty-four of our U.S. facilities and six closed landfills are covered by and submitted reports as required under this rule. We do not believe that the reporting rule has had nor will have a material impact on our operations. Additionally, the EPA has indicated that it will propose New Source Performance Standards (NSPS) for various industry sectors which will limit GHG emissions from certain sources. Currently, the EPA has not identified the pulp and paper industry in the first phase of sectors to be covered by the new standards. However, we anticipate that, at some future time, pulp and paper sources will be subject to new NSPS rules. It is uncertain what impacts, if any, future NSPS will have on International Paper's operations. The EPA has convened a Science Advisory Board (SAB) to assess the neutrality of biomass when combusted in new sources. The SAB began deliberations in 2011 and submitted recommendations to EPA in late 2012. It is not clear what, if any, of the SAB recommendations EPA will act on or the timeframe in which they may take action. Because the use of biomass is prevalent in the pulp and paper production process, the findings of the SAB and how they are incorporated into climate policy and subsequent regulations could be material to the industry and the Company.

Some U.S. states have considered legal measures to require the reduction of emissions of greenhouse gases by companies and public utilities, primarily through the

planned development of greenhouse gas emission inventories or regional greenhouse gas cap-and-trade programs. One such state is California. International Paper does not have any sites currently subject to California's GHG regulatory plan. There may be indirect impacts from changing input costs (such as electricity) at some of our California converting operations but these have yet to manifest themselves in material impacts. We are monitoring proposed programs in other states.

It is difficult to predict whether passage of climate control legislation or other regulatory initiatives by Congress or various U.S. states, or the adoption of regulations by the EPA or analogous state agencies that restrict emissions of greenhouse gases in areas in which we conduct business, may have a material effect on our operations in the U.S. In addition to possible direct impacts, future legislation and regulation could have indirect impacts on International Paper, such as higher prices for transportation, energy and other inputs, as well as more protracted air permitting processes, causing delays and higher costs to implement capital projects.

International Paper has controls and procedures in place to stay adequately informed about developments concerning possible climate change legislation and regulation in the U.S. and in other countries where we operate to ensure we continue to assess whether such legislation or regulation may have a material effect on the Company, its operations or financial condition, and whether we have any related disclosure obligations.

In summary, regulation of greenhouse gases continues to evolve in various countries in which we do business. While it is likely that there will be increased regulation relating to greenhouse gases and climate change, at this time it is not reasonably possible to estimate either a timetable for the implementation of any new regulations or our costs of compliance.

Additional information regarding climate change and International Paper, including our carbon footprint, is available at <http://internationalpaper.com/US/EN/Company/Sustainability/Climate.html>.

**EMPLOYEES**

As of December 31, 2012, we had approximately 70,000 employees, 42,000 of whom were located in the United States. Of the U.S. employees, approximately 27,500 are hourly, with unions representing approximately 18,000 employees. Approximately 12,000 of the union employees are represented by the United Steel Workers (USW). In September 2012, International Paper negotiated the integration of four former Temple-Inland mills into the International Paper/USW Mill Master Agreement

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expanding this Master to include 18 of our U.S. pulp, paper and packaging mills. In October 2012, we completed negotiations on the integration of 18 former Temple-Inland converting facilities into the International Paper/USW Converting Master Agreement expanding this Master to include 63 of our converting facilities. These two agreements, the Mill and Converting Master Agreements, cover several specific items, including but not limited to wages, select benefit programs, successorship, employment security and health and safety. Individual facilities continue to have local agreements for other items not covered by these agreements. If local facility agreements are not successfully negotiated at the time of expiration, then, under the Master Agreements, the local facility agreements will automatically renew with the same terms in effect at the time of expiration. In October 2012, International Paper negotiated the integration of four former Temple-Inland converting facilities into the International Paper/District Council 2, International Brotherhood of Teamsters (DC2, IBT) Converting Master Agreement expanding this Master to include 16 of our converting facilities.

In addition, during 2012, 36 local labor agreements were negotiated at four mills, 23 converting facilities and nine distribution facilities.

During 2013, 32 labor agreements are scheduled to be negotiated: five mills, 23 converting and four distribution facilities. Twenty-five of these agreements will automatically renew under the terms of the Master Agreements if new agreements are not reached.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

John V. Faraci, 63, chairman and chief executive officer since 2003. Mr. Faraci joined International Paper in 1974.

John N. Balboni, 64, senior vice president and chief information officer since 2005. Mr. Balboni joined International Paper in 1978.

C. Cato Ealy, 55, senior vice president – corporate development since 2003. Mr. Ealy is a director of Ilim Holding S.A., a Swiss holding company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group.

Mr. Ealy joined International Paper in 1992.

William P. Hoel, 56, senior vice president, Container The Americas, since February 2012. Mr. Hoel previously served as vice president, Container The Americas, from 2005 until 2012, senior vice president, corporate sales and marketing, from 2004 until 2005, and vice president, Wood Products, from 2000 until 2004. Mr. Hoel joined International Paper in 1983.

Tommy S. Joseph, 53, senior vice president – manufacturing, technology, EHS&S and global sourcing since January 2010. Mr. Joseph previously served as senior vice president – manufacturing, technology, EHS&S from February 2009 until December 2009, and vice president – technology from 2005 until February 2009. Mr. Joseph is a director of Ilim Holding S.A., a Swiss Holding Company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Mr. Joseph joined International Paper in 1983.

Thomas G. Kadien, 56, senior vice president – consumer packaging and IP Asia since January 2010. Mr. Kadien previously served as senior vice president and president – xpedx from 2005 until 2009. Mr. Kadien joined International Paper in 1978. Mr. Kadien serves on the board of directors of The Sherwin-Williams Company.

Paul J. Karre, 60, senior vice president – human resources and communications since May 2009.

Mr. Karre previously served as vice president – human resources from 2000 until 2009. Mr. Karre joined International Paper in 1974.

Mary A. Laschinger, 52, senior vice president since 2007 and president – xpedx since January 2010. Ms. Laschinger previously served as president – IP Europe, Middle East, Africa and Russia from 2005 until 2010. Ms. Laschinger joined International Paper in 1992. Ms. Laschinger serves on the board of directors of the Kellogg Company.

Tim S. Nicholls, 51, senior vice president – printing and communications papers of the Americas since November 2011. Mr. Nicholls previously served as senior vice president and chief financial officer from 2007 until 2011 and vice president and executive project leader of IP Europe during 2007. Mr. Nicholls served as vice president and chief financial officer – IP Europe from 2005 until 2007. Mr. Nicholls joined International Paper in 1991.

Maximo Pacheco, 60, senior vice president since 2005 and president – IP Europe, Middle East, Africa and Russia since January 2010. Mr. Pacheco previously served as president – IP do Brasil from 2004 until 2009. Mr. Pacheco is a director of Ilim Holding S.A., a Swiss holding company in which International Paper holds a 50% interest, and of its

subsidiary, Ilim Group. Mr. Pacheco joined International Paper in 1994.

Carol L. Roberts, 53, senior vice president and chief financial officer since November 2011. Ms. Roberts previously served as senior vice president – industrial packaging from 2008 until 2011 and senior vice president – IP packaging solutions from 2005 until 2008. Ms. Roberts joined International Paper in 1981.

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Sharon R. Ryan, 53, senior vice president, general counsel and corporate secretary since November 2011. Ms. Ryan previously served as senior vice president, acting general counsel and corporate secretary from May 2011 until November 2011, and as vice president from March 2011 until May 2011. Ms. Ryan served as associate general counsel, chief ethics and compliance officer from 2009 until 2011, and as associate general counsel from 2006 until 2011. Ms. Ryan joined International Paper in 1988.

Mark S. Sutton, 51, senior vice president – industrial packaging since November 2011. Mr. Sutton previously served as senior vice president – printing and communications papers of the Americas from 2010 until 2011, senior vice president – supply chain from 2008 to 2009, and vice president – supply chain from 2007 until 2008. Mr. Sutton served as vice president – strategic planning from 2005 until 2007. Mr. Sutton joined International Paper in 1984.

## RAW MATERIALS

Raw materials essential to our businesses include wood fiber, purchased in the form of pulpwood, wood chips and old corrugated containers (OCC), and certain chemicals, including caustic soda and starch. Information concerning fiber supply purchase agreements that were entered into in connection with the Company's 2006 Transformation Plan and the CBPR acquisition in 2008 is presented in Note 10 Commitments and Contingent Liabilities on page 66 of Item 8. Financial Statements and Supplementary Data.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K 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 increases 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, cyclicity and changes in consumer preferences, demand and pricing for our products; (iii) global economic conditions and political changes, including but not limited to the impairment of

financial institutions, changes in currency 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 a joint venture; (vii) our ability to achieve the benefits we expect from strategic acquisitions, divestitures and restructurings. These and other factors that could cause or contribute to actual results differing materially from such forward looking statements are discussed in greater detail below in "Item 1A. 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 1A. RISK FACTORS

In addition to the risks and uncertainties discussed elsewhere in this Annual Report on Form 10-K (particularly in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations), or in the Company's other filings with the Securities and Exchange Commission, the following are some important factors that could cause the Company's actual results to differ materially from those projected in any forward-looking statement.

### RISKS RELATING TO INDUSTRY CONDITIONS

**CHANGES IN THE COST OR AVAILABILITY OF RAW MATERIALS, ENERGY AND TRANSPORTATION COULD AFFECT OUR PROFITABILITY.** We rely heavily on the use of certain raw materials (principally virgin wood fiber, recycled fiber, caustic soda and starch), energy sources (principally natural gas, coal and fuel oil) and third-party companies that transport our goods. The market price of virgin wood fiber varies based upon availability and source. In addition, the increase in demand of products manufactured, in whole or in part, from recycled fiber, on a global basis, may cause an occasional tightening in the supply of recycled fiber. Energy prices, in particular prices



for oil and natural gas, have fluctuated dramatically in the past and may continue to fluctuate in the future.

Our profitability has been, and will continue to be, affected by changes in the costs and availability of such raw materials, energy sources and transportation sources.

THE INDUSTRIES IN WHICH WE OPERATE EXPERIENCE BOTH ECONOMIC CYCLICALITY AND CHANGES IN CONSUMER PREFERENCES.

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**FLUCTUATIONS IN THE PRICES OF, AND THE DEMAND FOR, OUR PRODUCTS COULD MATERIALLY AFFECT OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS.** Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to industry capacity and general economic conditions. The length and magnitude of these cycles have varied over time and by product. In addition, changes in consumer preferences may increase or decrease the demand for our fiber-based products and non-fiber substitutes. These consumer preferences affect the prices of our products. Consequently, our operating cash flow is sensitive to changes in the pricing and demand for our products.

**COMPETITION IN THE UNITED STATES AND INTERNATIONALLY COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS.** We operate in a competitive environment, both in the United States and internationally, in all of our operating segments. Product innovations, manufacturing and operating efficiencies, and marketing, distribution and pricing strategies pursued or achieved by competitors could negatively impact our financial results.

**RISKS RELATING TO MARKET AND ECONOMIC FACTORS**

**ADVERSE DEVELOPMENTS IN GENERAL BUSINESS AND ECONOMIC CONDITIONS COULD HAVE AN ADVERSE EFFECT ON THE DEMAND FOR OUR PRODUCTS AND OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.** General economic conditions may adversely affect industrial non-durable goods production, consumer spending, commercial printing and advertising activity, white-collar employment levels and consumer confidence, all of which impact demand for our products. In addition, a return to volatility in the capital and credit markets, which impacts interest rates, currency exchange rates and the availability of credit, could have a material adverse effect on our business, financial condition and our results of operations.

**THE LEVEL OF OUR INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND IMPAIR OUR ABILITY TO OPERATE OUR BUSINESS.** As of December 31, 2012, International Paper had approximately \$10.1 billion of outstanding indebtedness, including \$0 of indebtedness outstanding under our credit facilities and \$9.6 billion of indebtedness outstanding under our floating and fixed rate notes. The level of our indebtedness could have important consequences to our financial condition, operating results and business, including the following:

- it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes;
- a portion of our cash flows from operations will be dedicated to payments on indebtedness and will not be available for other purposes, including operations, capital expenditures and future business opportunities;
- the debt service requirements of our indebtedness could make it more difficult for us to satisfy other obligations;
- our indebtedness that is subject to variable rates of interest exposes us to increased debt service obligations in the event of increased interest rates;
- it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our competitors that have less debt; and
- it may increase our vulnerability to a downturn in general economic conditions or in our business, and may make us unable to carry out capital spending that is important to our growth.

In addition, we are subject to agreements that require meeting and maintaining certain financial ratios and covenants. A significant or prolonged downturn in general business and economic conditions may affect our ability to comply with these covenants or meet those financial ratios and tests and could require us to take action to reduce our debt or to act in a manner contrary to our current business objectives.

**CHANGES IN CREDIT RATINGS ISSUED BY NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS COULD ADVERSELY AFFECT OUR COST OF FINANCING AND HAVE AN ADVERSE EFFECT ON THE MARKET PRICE OF OUR SECURITIES.** Maintaining an investment-grade credit rating is an important element of our financial strategy, and a downgrade of the Company's ratings below investment grade may limit our access to the capital markets, have an adverse effect on the market price of our securities, increase our cost of borrowing and require us to post collateral for derivatives in a net liability position. The Company's desire to maintain its investment grade rating may cause the Company to take certain actions designed to improve its cash flow, including sale of assets, suspension or further reduction of our dividend and reductions in capital expenditures and

working capital.

Under the terms of the agreements governing approximately \$4.6 billion of our debt as of

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December 31, 2012, the applicable interest rate on such debt may increase upon each downgrade in our credit rating. As a result, a downgrade in our credit rating may lead to an increase in our interest expense. There can be no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. Any such downgrade of our credit ratings could adversely affect our cost of borrowing, limit our access to the capital markets or result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur.

**DOWNGRADES IN THE CREDIT RATINGS OF BANKS ISSUING CERTAIN LETTERS OF CREDIT WILL INCREASE OUR COST OF MAINTAINING CERTAIN INDEBTEDNESS AND MAY RESULT IN THE ACCELERATION OF DEFERRED TAXES.** We are subject to the risk that a bank with currently issued irrevocable letters of credit supporting installment notes delivered to the Company in connection with our 2006 sale of forestlands may be downgraded below a required rating. Since 2006, certain banks have fallen below the required ratings threshold and were successfully replaced, or waivers were obtained regarding their replacement. Ongoing uncertainty in the banking environment continues, including continued uncertainty with respect to whether the euro-zone will emerge from its sovereign debt crisis and the rating agencies' ongoing reassessment of bank ratings. As a result, a number of the letter-of-credit banks currently in place remain subject to risk of downgrade and the number of qualified replacement banks remains limited. The downgrade of one or more of these banks may subject the Company to additional costs of securing a replacement letter-of-credit bank or could result in an acceleration of deferred taxes if a replacement bank cannot be obtained. See Note 11 Variable Interest Entities and Preferred Securities of Subsidiaries on pages 69 through 72 of Item 8. Financial Statements and Supplementary Data for further information.

**OUR PENSION AND HEALTH CARE COSTS ARE SUBJECT TO NUMEROUS FACTORS WHICH COULD CAUSE THESE COSTS TO CHANGE.** We have defined benefit pension plans covering substantially all U.S. salaried employees hired prior to July 1, 2004 and substantially all hourly and union employees regardless of hire date. We provide retiree health care benefits to certain of our U.S. salaried and certain hourly employees. Our pension costs are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns, changes in general interest rates and changes in the number of retirees may result in

increased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates and expected rates of return on plan assets could also increase pension and health care costs. Significant changes in any of these factors may adversely impact our cash flows, financial condition and results of operations.

**OUR PENSION PLANS ARE CURRENTLY UNDERFUNDED, AND OVER TIME WE MAY BE REQUIRED TO MAKE CASH PAYMENTS TO THE PLANS, REDUCING THE CASH AVAILABLE FOR OUR BUSINESS.** We record a liability associated with our pension plans equal to the excess of the benefit obligation over the fair value of plan assets. The benefit liability recorded under the provisions of Accounting Standards Codification (ASC) 715, "Compensation – Retirement Benefits," at December 31, 2012 was \$4.1 billion. This includes liability for the International Paper Company pension plans as well as the Temple-Inland Retirement Plan and the Temple-Inland Supplemental Executive Retirement Plan, for which we have responsibility in connection with the Temple-Inland acquisition. The amount and timing of future contributions will depend upon a number of factors, principally the actual earnings and changes in values of plan assets and changes in interest rates.

**CHANGES IN INTERNATIONAL CONDITIONS COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS.** Our operating results and business prospects could be substantially affected by risks related to the countries outside the United States in which we have manufacturing facilities or sell our products. Specifically, Brazil, Russia, Poland, China, and India, where we have substantial manufacturing facilities, are countries that are exposed to economic and political instability in their respective regions of the world. Downturns in economic activity, adverse tax consequences, fluctuations in the value of local currency versus the U.S. dollar, nationalization or any change in social, political or labor conditions in any of these countries or regions could negatively affect our financial results. Trade protection measures in favor of local producers of competing products, including governmental subsidies, tax benefits and other measures giving local producers a competitive advantage

over International Paper, may also adversely impact our operating results and business prospects in these countries. In addition, our international operations are subject to regulation under U.S. law and other laws related to operations in foreign jurisdictions. For example, the Foreign Corrupt Practices Act prohibits U.S. companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. Failure to comply with domestic or foreign laws could result in various adverse consequences, including the

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imposition of civil or criminal sanctions and the prosecution of executives overseeing our international operations.

**RISKS RELATING TO LEGAL PROCEEDINGS AND COMPLIANCE COSTS**

**EXPENDITURES RELATED TO THE COST OF COMPLIANCE WITH ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REQUIREMENTS COULD IMPACT OUR BUSINESS AND RESULTS OF OPERATIONS.** Our operations are subject to U.S. and non-U.S. laws and regulations relating to the environment, health and safety. We have incurred, and expect that we will continue to incur, significant capital, operating and other expenditures complying with applicable environmental laws and regulations. There can be no assurance that future remediation requirements and compliance with existing and new laws and requirements, including with global climate change laws and regulations, Boiler MACT and National Ambient Air Quality Standards (NAAQSs), will not require significant expenditures, or that existing reserves for specific matters will be adequate to cover future costs. We could also incur substantial fines or sanctions, enforcement actions (including orders limiting our operations or requiring corrective measures), cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws, regulations, codes and common law. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, liability may be imposed without regard to contribution or to whether we knew of, or caused, the release of hazardous substances.

**RESULTS OF LEGAL PROCEEDINGS COULD HAVE A MATERIAL EFFECT ON OUR CONSOLIDATED FINANCIAL STATEMENTS.** The costs and other effects of pending litigation against us cannot be determined with certainty. Although we believe that the outcome of any pending or threatened lawsuits or claims, or all of them combined, will not have a material effect on our business or consolidated financial statements, there can be no assurance that the outcome of any lawsuit or claim will be as expected.

**RISKS RELATING TO OUR OPERATIONS**

**MATERIAL DISRUPTIONS AT ONE OF OUR MANUFACTURING FACILITIES COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS.** We operate our facilities in compliance with applicable rules and regulations and take measures to minimize the risks of disruption at our facilities. A material disruption at our corporate headquarters or one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our financial condition. Any of our manufacturing facilities, or any of our machines within an otherwise

operational facility, could cease operations unexpectedly due to a number of events, including:

- fires, floods, earthquakes, hurricanes or other catastrophes;
- the effect of a drought or reduced rainfall on its water supply;
- terrorism or threats of terrorism;
- domestic and international laws and regulations applicable to our Company and our business partners, including joint venture partners, around the world;
- unscheduled maintenance outages;
- prolonged power failures;
- an equipment failure;
  - a chemical spill or release;
- explosion of a boiler;
- damage or disruptions caused by third parties operating on or adjacent to one of our manufacturing facilities;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;
- labor difficulties; and
- other operational problems.

Any such downtime or facility damage could prevent us from meeting customer demand for our products and/or require us to make unplanned expenditures. If one of these machines or facilities were to incur significant downtime, our ability to meet our production targets and satisfy customer requirements could be impaired, resulting in lower sales and having a negative effect on our business and financial results.

WE ARE SUBJECT TO CYBER-SECURITY RISKS RELATED TO BREACHES OF SECURITY PERTAINING TO SENSITIVE COMPANY, CUSTOMER, EMPLOYEE AND VENDOR INFORMATION AS WELL AS BREACHES IN THE TECHNOLOGY THAT MANAGES OPERATIONS AND OTHER BUSINESS PROCESSES. International Paper business operations rely upon secure information technology systems for data capture, processing, storage and reporting. Despite careful security and controls design, implementation, updating and independent third party verification, our information technology systems, and those of our third party providers, could become subject to cyber attacks. Network, system, application and data breaches could

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result in operational disruptions or information misappropriation including, but not limited to interruption to systems availability, denial of access to and misuse of applications required by our customers to conduct business with International Paper. Access to internal applications required to plan our operations, source materials, manufacture and ship finished goods and account for orders could be denied or misused. Theft of intellectual property or trade secrets, and inappropriate disclosure of confidential information, could stem from such incidents. Any of these operational disruptions and/or misappropriation of information could result in lost sales, business delays, negative publicity and could have a material effect on our business.

**SEVERAL OPERATIONS ARE CONDUCTED BY JOINT VENTURES THAT WE CANNOT OPERATE SOLELY FOR OUR BENEFIT.** Several operations, particularly in emerging markets, are carried on by joint ventures such as the Ilim joint venture in Russia and the recently established Orsa International Paper joint venture in Brazil. In joint ventures we share ownership and management of a company with one or more parties who may or may not have the same goals, strategies, priorities or resources as we do. In general, joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. Operating a business as a joint venture often requires additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. In joint ventures, we are required to pay more attention to our relationship with our co-owners as well as with the joint venture, and if a co-owner changes, our relationship may be adversely affected. In addition, the benefits from a successful joint venture are shared among the co-owners, so that we do not receive all the benefits from our successful joint ventures.

**WE MAY NOT ACHIEVE THE EXPECTED BENEFITS FROM STRATEGIC ACQUISITIONS, JOINT VENTURES AND DIVESTITURES.** Our strategy for long-term growth, productivity and profitability depends, in part, on our ability to accomplish prudent strategic acquisitions, joint ventures and divestitures and to realize the benefits we expect from such transactions, and are subject to the risk that we may not achieve the expected benefits. Among the benefits we expect from potential as well as recently completed acquisitions and joint ventures are synergies, cost savings, growth opportunities or access to new markets (or a combination thereof), and in the case of divestitures, the realization of proceeds from the sale of businesses and assets to purchasers placing higher strategic value on such businesses and assets than does International Paper.

For example, on December 12, 2012, the Company signed an agreement to divest our Temple-Inland Building Products business unit to Georgia-Pacific LLC. Our ability to complete the transaction is subject to certain conditions, including approval of the transaction by the U.S. Department of Justice. Failure to consummate the agreed sale to Georgia-Pacific could result in significant delay in accomplishing a divestiture of Temple-Inland Building Products and inability to reach an agreement with one or more alternative purchasers on terms as favorable as the agreement with Georgia-Pacific.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

**FORESTLANDS**

As of December 31, 2012, the Company owned or managed approximately 327,000 acres of forestlands in Brazil, and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. All owned lands in Brazil are independently third-party certified for sustainable forestry under CERFLOR.

**MILLS AND PLANTS**

A listing of our production facilities by segment, the vast majority of which we own, can be found in Appendix I hereto, which is incorporated herein by reference.

The Company's facilities are in good operating condition and are suited for the purposes for which they are presently being used. We continue to study the economics of modernization or adopting other alternatives for higher cost facilities.

**CAPITAL INVESTMENTS AND DISPOSITIONS**

Given the size, scope and complexity of our business interests, we continually examine and evaluate a wide variety of business opportunities and planning alternatives, including possible acquisitions and sales or other dispositions of



properties. You can find a discussion about the level of planned capital investments for 2013 on page 36, and dispositions and restructuring activities as of December 31, 2012, on pages 23 through 25 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and on pages 56 through 61 of Item 8. Financial Statements and Supplementary Data.

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ITEM 3. LEGAL PROCEEDINGS

Information concerning the Company's legal proceedings is set forth in Note 10 Commitments and Contingencies on pages 65 through 69 of Item 8. Financial Statements and Supplementary Data.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II.

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Dividend per share data on the Company's common stock and the high and low sales prices for the Company's common stock for each of the four quarters in 2012 and 2011 are set forth on page 88 of Item 8. Financial Statements and Supplementary Data. As of

the filing of this Annual Report on Form 10-K, the Company's common shares are traded on the New York Stock Exchange. International Paper options are traded on the Chicago Board of Options Exchange. As of February 21, 2013, there were approximately 16,026 record holders of common stock of the Company.

The table below presents information regarding the Company's purchase of its equity securities for the time periods presented.

## 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 (or Units) Purchased as Part of Publicly Announced Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2012 - October 31, 2012	377	\$35.83	N/A	N/A
Total	377			

(a) Shares acquired from employees from share withholdings to pay income taxes under the Company's restricted stock programs.

No activity occurred in November or December.



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PERFORMANCE GRAPH

The performance graph shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

The following graph compares a \$100 investment in Company stock on December 30, 2007 with a \$100 investment in our ROI Peer Group and the S&P 500 also made at market close on December 30, 2007. The graph portrays total return, 2007–2012, assuming reinvestment of dividends.

The companies included in the ROI Peer Group are Boise, Inc., Domtar Inc., Fibria Celulose S.A., Klabin S.A., (1) MeadWestvaco Corp., Metsa Board Corporate, Mondi Group, Packaging Corporation of America, Rock-Tenn Company, Smurfit Kappa Group, Stora Enso Group, and UPM-Kymmene Corp.

Boise, Inc., Mondi Group and Smurfit Kappa Group became publicly traded companies in June 2007 (Boise, Inc. (2) and Mondi Group) and March 2007 (Smurfit Kappa). Their results are included in the ROI peer group beginning in 2008.

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FIVE-YEAR FINANCIAL SUMMARY (a)

Dollar amounts in millions, except per share amounts and stock prices			2011		2010		2009		2008
RESULTS OF OPERATIONS									
Net sales	\$27,833		\$26,034		\$25,179		\$23,366		\$24,829
Costs and expenses, excluding interest	26,137		24,035		23,749		21,498		25,490
Earnings (loss) from continuing operations before income taxes and equity earnings	1,024	(b)	1,458	(e)	822	(h)	1,199	(j)	(1,153 ) (l)
Equity earnings (loss), net of taxes	61		140		111		(26 )		6
Discontinued operations, net of taxes	45	(c)	49	(f)	—		—		(13 ) (m)
Net earnings (loss)	799	(b-d)	1,336	(e-g)	712	(h-i)	704	(j-k)	(1,322 ) (l-n)
Noncontrolling interests, net of taxes	5		14		21		18		3
Net earnings (loss) attributable to International Paper Company	794	(b-d)	1,322	(e-g)	691	(h-i)	686	(j-k)	(1,325 ) (l-n)
FINANCIAL POSITION									
Working capital	\$3,907		\$5,718		\$3,525		\$3,539		\$2,605
Plants, properties and equipment, net	13,949		11,817		12,002		12,688		14,202
Forestlands	622		660		747		757		594
Total assets	32,153		27,018		25,409		25,543		26,804
Notes payable and current maturities of long-term debt	444		719		313		304		828
Long-term debt	9,696		9,189		8,358		8,729		11,246
Total shareholders' equity	6,304		6,645		6,875		6,018		4,060
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS									
Earnings (loss) from continuing operations	\$1.72		\$2.95		\$1.61		\$1.61		\$(3.12 )
Discontinued operations	0.10		0.11		—		—		(0.03 )
Net earnings (loss)	1.82		3.06		1.61		1.61		(3.15 )
DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON									

## SHAREHOLDERS

Earnings (loss) from continuing operations	\$1.70	\$2.92	\$1.59	\$1.61	\$(3.12 )
Discontinued operations	0.10	0.11	—	—	(0.03 )
Net earnings (loss)	1.80	3.03	1.59	1.61	(3.15 )
Cash dividends	1.0875	0.9750	0.400	0.325	1.00
Total shareholders' equity	14.33	15.21	15.71	13.90	9.50

## COMMON STOCK PRICES

High	\$39.88	\$33.01	\$29.25	\$27.79	\$33.77
Low	27.29	21.55	19.33	3.93	10.20
Year-end	39.84	29.60	27.24	26.78	11.80

## FINANCIAL RATIOS

Current ratio	1.8	2.2	1.8	1.9	1.5
Total debt to capital ratio	0.62	0.60	0.56	0.60	0.75
Return on shareholders' equity	11.6	% (b-d) 17.9	% (e-g) 11.4	% (h-i) 14.1	% (j-k) (15.4 )% (l-n)

Return on investment from continuing operations attributable to International Paper Company	4.8	% (b-d) 7.5	% (e-g) 5.3	% (h-i) 5.1	% (j-k) (4.2 )% (l-n)
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CAPITAL EXPENDITURES	\$1,383	\$1,159	\$775	\$534	\$1,002
NUMBER OF EMPLOYEES	70,000	61,500	59,500	56,100	61,700

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FINANCIAL GLOSSARY

Current ratio—

current assets divided by current liabilities.

Total debt to capital ratio—

long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt and total shareholders' equity.

Return on shareholders' equity—

net earnings attributable to International Paper Company divided by average shareholders' equity (computed monthly).

Return on investment—

the after-tax amount of earnings from continuing operations before interest divided by the average of total assets minus accounts payable and accrued liabilities (computed monthly).

FOOTNOTES TO FIVE-YEAR FINANCIAL SUMMARY

- (a) All periods presented have been restated to reflect the Kraft Papers, Brazilian Coated Papers, Beverage Packaging, and Wood Products businesses as discontinued operations, if applicable.

2012:

- (b) Includes restructuring and other charges of \$109 million before taxes (\$70 million after taxes) including pre-tax charges of \$48 million (\$30 million after taxes) for early debt extinguishment costs, pre-tax charges of \$44 million (\$28 million after taxes) for costs associated with the restructuring of the Company's xpedx operations, and pre-tax charges of \$17 million (\$12 million after taxes) for costs associated with the restructuring of the Company's Packaging business in Europe. Also included are a pre-tax charge of \$20 million (\$12 million after taxes) related to the write-up of the Temple-Inland inventories to fair value, pre-tax charges of \$164 million (\$108 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of \$62 million (\$38 million after taxes) to adjust the long-lived assets of the Hueneme mill in Oxnard, California to their fair value in anticipation of its divestiture, and pre-tax charges of \$29 million (\$55 million after taxes) for costs associated with the divestiture of three containerboard mills.
- (c) Includes pre-tax charges of \$15 million (\$9 million after taxes) for expenses associated with pursuing the divestiture of the Temple-

Inland Building Products business and the operating results of the Temple-Inland Building Products business.

- (d) Includes a net tax expense of \$14 million related to internal restructurings and a \$5 million expense to adjust deferred tax assets related to post-retirement prescription drug coverage (Medicare Part D reimbursement).

2011:

- (e) Includes restructuring and other charges of \$102 million before taxes (\$90 million after taxes) including pre-tax charges of \$49 million (\$34 million after taxes) for costs associated with the restructuring of the Company's xpedx operations, pre-tax charges of \$32 million (\$19 million after taxes) for early debt extinguishment costs, pre-tax charges of \$18 million (\$12 million after taxes) for costs associated with the acquisition of a majority share of Andhra Pradesh Paper Mills Limited in India, pre-tax charges of \$20 million (\$12 million after taxes) for costs associated with signing an agreement to acquire Temple-Inland, and a pre-tax gain of \$24 million (\$15 million after taxes) related to the reversal of environmental and other reserves due to the announced repurposing of a portion of the Franklin mill. Also included are a pre-tax charge of \$27 million (\$17 million after taxes) for an environmental reserve related to the Company's property in Cass Lake, Minnesota, a pre-tax charge of \$129 million (\$104 million after taxes) for a fixed-asset impairment of the North American Shorewood business, pre-tax charges of \$78 million (a gain of \$143 million after taxes) to reduce the carrying value of the Shorewood business based on the terms of the definitive agreement to sell this business, and a charge of \$11 million (before and after taxes) for asset



impairment costs associated with the Inverurie, Scotland mill which was closed in 2009.

Includes a pre-tax gain of \$50 million (\$30 million after taxes) for an earnout provision related to the sale of the Company's Kraft Papers business completed in January 2007. Also, the Company sold its Brazilian Coated Paper (f)business in the third quarter 2006. Local country tax contingency reserves were included in the business' operating results in 2005 and 2006 for which the related statute of limitations has expired. The reserves were reversed and a tax benefit of \$15 million plus associated interest income of \$6 million (\$4 million after taxes) was recorded.

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Includes a tax benefit of \$222 million related to the reduction of the carrying value of the Shorewood business and the write-off of a deferred tax liability associated with Shorewood, a \$24 million tax expense related to internal (g) restructurings, a \$9 million tax expense for costs associated with our acquisition of a majority share of Andhra Pradesh Paper Mills Limited in India, a \$13 million tax benefit related to the release of a deferred tax asset valuation allowance, and a \$2 million tax expense for other items.

2010:

Includes restructuring and other charges of \$394 million before taxes (\$242 million after taxes) including pre-tax charges of \$315 million (\$192 million after taxes) for shutdown costs related to the Franklin, Virginia mill, a pre-tax charge of \$35 million (\$21 million after taxes) for early debt extinguishment costs, pre-tax charges of \$7 million (\$4 million after taxes) for closure costs related to the Bellevue, Washington container plant, a pre-tax (h) charge of \$11 million (\$7 million after taxes) for an Ohio Commercial Activity tax adjustment, a pre-tax charge of \$6 million (\$4 million after taxes) for severance and benefit costs associated with the Company's S&A reduction initiative, and a pre-tax charge of \$8 million (\$5 million after taxes) for costs associated with the reorganization of the Company's Shorewood operations. Also included are a pre-tax charge of \$18 million (\$11 million after taxes) for an environmental reserve related to the Company's property in Cass Lake, Minnesota, and a pre-tax gain of \$25 million (\$15 million after taxes) related to the partial redemption of the Company's interests in Arizona Chemical.

Includes tax expense of \$14 million and \$32 million for tax adjustments related to incentive compensation and (i) Medicare Part D deferred tax write-offs, respectively, and a \$40 million tax benefit related to cellulosic bio-fuel tax credits.

2009:

Includes restructuring and other charges of \$1.4 billion before taxes (\$853 million after taxes), including pre-tax charges of \$469 million (\$286 million after taxes), \$290 million (\$177 million after taxes), and \$102 million (j) million after taxes) for shutdown costs for the Albany, Oregon, Franklin, Virginia and Pineville, Louisiana mills, respectively, a pre-tax charge of \$82 million (\$50 million after taxes) for costs related to the shutdown of a paper machine at

the Valliant, Oklahoma mill, a pre-tax charge of \$148 million (\$92 million after taxes) for severance and benefit costs associated with the Company's 2008 overhead cost reduction initiative, a pre-tax charge of \$185 million (\$113 million after taxes) for early debt extinguishment costs, a pre-tax charge of \$23 million (\$28 million after taxes) for closure costs associated with the Inverurie, Scotland mill, and a charge of \$31 million, before and after taxes, for severance and other costs associated with the planned closure of the Etienne mill in France, and a pre-tax charge of \$23 million (\$14 million after taxes) for other items. Also included are a pre-tax gain of \$2.1 billion (\$1.4 billion after taxes) related to alternative fuel mixture credits, a pre-tax charge of \$87 million (\$54 million after taxes) for integration costs associated with the CBPR acquisition, a charge of \$56 million to write down the assets at the Etienne mill in France to estimated fair value.

Includes a \$156 million tax expense for the write-off of deferred tax assets in France, a \$15 million tax (k) expense for the write-off of a deferred tax asset for a recycling credit in the state of Louisiana and a \$26 million tax benefit related to the settlement of the 2004 and 2005 U.S. federal income tax audit and related state income tax effects.

2008:

(l) Includes restructuring and other charges of \$370 million before taxes (\$227 million after taxes), including a pre-tax charge of \$123 million (\$75 million after taxes) for shutdown costs for the Bastrop, Louisiana mill, a pre-tax charge of \$30 million (\$18 million after taxes) for the shutdown of a paper machine at the Franklin, Virginia mill, a charge of \$53 million before taxes (\$32 million after taxes) for severance and related costs associated with the Company's

2008 overhead cost reduction initiative, a charge of \$75 million before taxes (\$47 million after taxes) for adjustments to legal reserves, a pre-tax charge of \$30 million (\$19 million after taxes) for costs associated with the reorganization of the Company's Shorewood operations, a pre-tax charge of \$53 million (\$33 million after taxes) to write off deferred supply chain initiative development costs for U.S. container operations that were not implemented due to the CBPR acquisition, a charge of \$8 million before taxes (\$5 million after taxes) for closure costs associated with the Ace Packaging business, and a gain of \$2 million, before and after taxes, for adjustments to previously recorded reserves and other

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charges associated with the Company's 2006 Transformation Plan. Also included are a charge of \$1.8 billion, before and after taxes, for the impairment of goodwill in the Company's U.S. Printing Papers and U.S. and European Coated Paperboard businesses, a pre-tax charge of \$107 million (\$84 million after taxes) to write down the assets of the Inverurie, Scotland mill to estimated fair value, a pre-tax gain of \$6 million (\$4 million after taxes) for adjustments to estimated transaction costs accrued in connection with the 2006 Transformation Plan forestland sales, a \$39 million charge before taxes (\$24 million after taxes) relating to the write-up of inventory to fair value in connection with the CBPR acquisition, and a \$45 million charge before taxes (\$28 million after taxes) for integration costs associated with the CBPR acquisition.

(m) Includes a pre-tax charge of \$25 million (\$16 million after taxes) for the settlement of a post-closing adjustment on the sale of the Beverage Packaging business, pre-tax gains of \$9 million (\$5 million after taxes) for adjustments to reserves associated with the sale of discontinued businesses, and the operating results of certain wood products facilities.

(n) Includes a \$40 million tax benefit related to the restructuring of the Company's international operations.

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

Operating Earnings (a non-GAAP measure) is defined as net earnings from continuing operations (a GAAP measure) excluding special items and non-operating pension expense. International Paper generated Operating Earnings per diluted share attributable to common shareholders of \$2.65 in 2012, compared with \$3.12 in 2011, and \$2.30 in 2010. Diluted earnings (loss) per share attributable to common shareholders were \$1.80 in 2012, compared with \$3.03 in 2011 and \$1.59 in 2010.

International Paper delivered strong results during 2012 despite challenging global economic conditions, and generated record cash flow from operations of \$3 billion. Our results were primarily driven by the Temple-Inland acquisition and associated integration synergies that exited the year at a run rate above our first-year plan. We also divested three mills required as a condition to close the Temple-Inland acquisition and announced an agreement to divest the building products business acquired with Temple-Inland. These divestitures combined will generate more than \$1.2 billion of cash once the building products divestiture closes.

Our global operations continued to execute well and deliver on our cost management objectives, contributing to another year of generating returns above our cost of capital. We reduced our balance sheet debt by \$1.9 billion since the Temple-Inland acquisition closed and increased our annual dividend by 14% to \$1.20 per share. We also made significant progress on our strategic and cost-reduction projects, including the Franklin fluff pulp mill conversion, the biomass boiler at our Mogi Guacu mill in Brazil, and our new coated paperboard machine in China, among others. We also finalized two acquisitions in Turkey and Brazil during the 2013 first quarter that were announced in 2012. We believe these strategic and cost-saving projects position International Paper well for a step-change in earnings in 2013.

Summarizing our 2012 operations, the Temple-Inland acquisition built a strong foundation for steadily improving, as well as less cyclical, earnings going forward. The acquisition and impressive integration were meaningfully earnings accretive in less than twelve months. While the slower global growth environment took its toll on pricing in pulp, consumer grades and export shipments across all our product lines, the worst seems to be behind us as pulp markets have stabilized and rebounded from the bottom and export markets in containerboard have recovered in the second half of the year. It was another year of excellent execution across

our global operations, as the performance of our mills more than offset ramp-up costs associated with the Franklin fluff pulp mill conversion and the coated paperboard machine start-up at our IP-Sun joint venture in China. Lower average input costs helped us offset the absence of significant favorable inventory valuation adjustments that we experienced in 2011.

Looking ahead to the first quarter of 2013, we expect seasonally weaker volume in our Europe-Russia and Brazil papers businesses and stable demand across our North American businesses. We expect the full benefit of our 2012 fourth quarter North American box price increase to be realized during the 2013 first quarter, but it will be partially offset by unfavorable seasonal mix issues in Brazil. Operationally, we should see the impact of improved performance across our mill businesses as supply chain conditions improve and one-time unfavorable issues from the 2012 fourth quarter do not repeat. Further, lower costs at Franklin and the full impact of the biomass boiler in Brazil should provide additional earnings momentum. As to input costs, we expect higher costs for recycled fiber, wood and energy. The 2013 first quarter will be another heavy maintenance outage quarter with only a modest decrease in expenses expected.

For the 2013 full year, our outlook for end-use demand is based on global economic growth of three to four percent and growth in the U.S. of one to two percent. Our largest lever this year is the trajectory of our North American

industrial packaging business, with year-over-year earnings improvement due to pricing and continued system optimization. Further, the ramp-up of our many strategic and cost saving projects during the course of the year is expected to drive significant incremental earnings in 2013 versus 2012. We do, however, expect higher input costs, primarily associated with fiber and energy, and an unfavorable impact associated with the lost earnings and incremental containerboard purchases from the divested mills.

Free cash flow (a non-GAAP measure) of \$1.6 billion generated in 2012 was lower than the \$1.7 billion generated in both 2011 and 2010 (see reconciliation on page 33).

Operating Earnings per share attributable to common shareholders of \$0.69 in the fourth quarter of 2012 were lower than both the \$0.81 in the 2012 third quarter and the \$0.73 in the 2011 fourth quarter. Diluted earnings (loss) per share attributable to common shareholders were \$0.53 in the fourth quarter of 2012, compared with \$0.54 in the third quarter of 2012 and \$0.65 in the fourth quarter of 2011.

Free cash flow of \$384 million generated in the 2012 fourth quarter was lower than the \$567 million generated in the 2012 third quarter but slightly higher than the \$328 million

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generated in the 2011 fourth quarter (see reconciliation on page 33).

Operating Earnings is a non-GAAP measure. Diluted earnings (loss) per share attributable to International Paper Company common shareholders is the most direct comparable GAAP measure. The Company calculates Operating Earnings by excluding the after-tax effect of items considered by management to be unusual from the earnings reported under GAAP, and non-operating pension expense. 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. The following are reconciliations of Operating Earnings per share attributable to International Paper Company common shareholders to diluted earnings (loss) per share attributable to International Paper Company common shareholders.

	2012	2011	2010
Operating Earnings (Loss) Per Share Attributable to Shareholders	\$2.65	\$3.12	\$2.30
Non-operating pension expense	(0.26	) (0.06	) (0.14
Restructuring and other charges	(0.45	) (0.19	) (0.59
Net gains (losses) on sales and impairments of businesses	(0.20	) 0.08	0.03
Interest income	—	0.01	—
Income tax adjustments	(0.04	) (0.06	) (0.01
Bargain purchase price adjustment	—	0.02	—
Diluted Earnings (Loss) Per Share from Continuing Operations	1.70	2.92	1.59
Discontinued operations	0.10	0.11	—
Diluted Earnings (Loss) Per Share Attributable to Shareholders	\$1.80	\$3.03	\$1.59

	Three Months Ended December 31, 2012	Three Months Ended September 30, 2012	Three Months Ended December 31, 2011
Operating Earnings (Loss) Per Share Attributable to Shareholders	\$0.69	\$0.81	\$0.73
Non-operating pension expense	(0.07	) (0.06	) (0.01
Restructuring and other charges	(0.08	) (0.13	) (0.03
Net gains (losses) on sales and impairments of businesses	0.01	(0.11	) —
Interest income	—	—	0.01
Income tax adjustments	(0.04	) —	(0.05
Diluted Earnings (Loss) Per Share from Continuing Operations	0.51	0.51	0.65
Discontinued operations	0.02	0.03	—
Diluted Earnings (Loss) Per Share Attributable to Shareholders	\$0.53	\$0.54	\$0.65

## Results of Operations

Industry 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. Industry segment operating profits are defined as earnings before taxes, equity earnings, noncontrolling interests, interest expense, corporate items and corporate special items. Industry segment

operating profits are defined by the Securities and Exchange Commission as a non-GAAP financial measure, and are not GAAP alternatives to net income or any other operating measure prescribed by accounting principles generally accepted in the United States.

International Paper operates in four segments: Industrial Packaging, Printing Papers, Consumer Packaging and Distribution. Effective January 1, 2011, the Forest Products Business is no longer being reported by the Company as a separate industry segment due to the immateriality of the results of the remaining business on the Company's consolidated financial statements.



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The following table presents a reconciliation of net earnings (loss) attributable to International Paper Company to its total industry segment operating profit:

In millions	2012	2011	2010
Net Earnings (Loss) Attributable to International Paper Company	\$794	\$1,322	\$691
Deduct – Discontinued operations:			
(Earnings) from operations	(54	)—	—
(Gain) loss on sales or impairment	9	(49	)—
Earnings (Loss) From Continuing Operations Attributable to International Paper Company	749	1,273	691
Add back (deduct):			
Income tax provision	331	311	221
Equity (earnings) loss, net of taxes	(61	)(140	)(111
Net earnings attributable to noncontrolling interests	5	14	21
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	1,024	1,458	822
Interest expense, net	672	541	608
Noncontrolling interests / equity earnings included in operations	—	(10	)(15
Corporate items	51	102	142
Special items:			
Restructuring and other charges	51	82	70
Net losses (gains) on sales and impairments of businesses	(2	)—	(25
Non-Operating Pension Expense	\$159	\$43	\$84
	\$1,955	\$2,216	\$1,686
Industry Segment Operating Profit			
Industrial Packaging	\$1,066	\$	