

INTERNATIONAL PAPER CO /NEW/  
Form 10-Q  
August 04, 2017  
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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 June 30, 2017

“ 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                      (I.R.S. Employer  
incorporation of organization)                      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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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.    “

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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 July 28, 2017 was 412,915,093.

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## 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		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net Sales	\$5,772	\$5,322	\$11,283	\$10,432
Costs and Expenses				
Cost of products sold	4,105	4,112	8,045	7,723
Selling and administrative expenses	422	386	844	762
Depreciation, amortization and cost of timber harvested	357	301	702	585
Distribution expenses	390	339	769	659
Taxes other than payroll and income taxes	43	41	88	82
Restructuring and other charges	(16)	) —	(16)	) 1
Net (gains) losses on sales and impairments of businesses	9	28	9	65
Litigation settlement	354	—	354	—
Net bargain purchase gain on acquisition of business	—	—	(6)	) —
Interest expense, net	137	129	279	252
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	(29)	) (14)	) 215	303
Income tax provision (benefit)	(89)	) (9)	) (6)	) 32
Equity earnings (loss), net of taxes	20	45	68	108
Earnings (Loss) From Continuing Operations	80	40	289	379
Discontinued operations, net of taxes	—	—	—	(5)
Net Earnings (Loss)	80	40	289	374
Less: Net earnings (loss) attributable to noncontrolling interests	—	—	—	—
Net Earnings (Loss) Attributable to International Paper Company	\$80	\$40	\$289	\$374
Basic Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders				
Earnings (loss) from continuing operations	\$0.19	\$0.10	\$0.70	\$0.92
Discontinued operations, net of taxes	—	—	—	(0.01)
Net earnings (loss)	\$0.19	\$0.10	\$0.70	\$0.91
Diluted Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders				
Earnings (loss) from continuing operations	\$0.19	\$0.10	\$0.69	\$0.91
Discontinued operations, net of taxes	—	—	—	(0.01)
Net earnings (loss)	\$0.19	\$0.10	\$0.69	\$0.90
Average Shares of Common Stock Outstanding – assuming dilution	416.4	414.7	416.7	415.1
Cash Dividends Per Common Share	\$0.4625	\$0.4400	\$0.9250	\$0.8800
Amounts Attributable to International Paper Company Common Shareholders				
Earnings (loss) from continuing operations	\$80	\$40	\$289	\$379
Discontinued operations, net of taxes	—	—	—	(5)
Net earnings (loss)	\$80	\$40	\$289	\$374

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

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## INTERNATIONAL PAPER COMPANY

## Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Earnings (Loss)	\$80	\$40	\$289	\$374
Other Comprehensive Income (Loss), Net of Tax:				
Amortization of pension and post-retirement prior service costs and net loss:				
U.S. plans	60	335	117	399
Pension and postretirement liability adjustments:				
U.S. plans	—	(545)	—	(545)
Non-U.S. plans	2	—	1	17
Change in cumulative foreign currency translation adjustment	(14 )	134	134	370
Net gains/losses on cash flow hedging derivatives:				
Net gains (losses) arising during the period	(1 )	(14 )	8	(10 )
Reclassification adjustment for (gains) losses included in net earnings (loss)	(2 )	(3 )	(4 )	(4 )
Total Other Comprehensive Income (Loss), Net of Tax	45	(93 )	256	227
Comprehensive Income (Loss)	125	(53 )	545	601
Net (earnings) loss attributable to noncontrolling interests	—	—	—	—
Other comprehensive (income) loss attributable to noncontrolling interests	(1 )	1	(2 )	—
Comprehensive Income (Loss) Attributable to International Paper Company	\$124	\$(52)	\$543	\$601

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

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Condensed Consolidated Balance Sheet  
(In millions)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current Assets		
Cash and temporary investments	\$ 1,041	\$ 1,033
Accounts and notes receivable, net	3,283	3,001
Inventories	2,361	2,438
Other current assets	552	198
Total Current Assets	7,237	6,670
Plants, Properties and Equipment, net	14,040	13,990
Forestlands	451	456
Investments	325	360
Financial Assets of Special Purpose Entities (Note 13)	7,042	7,033
Goodwill	3,409	3,364
Deferred Charges and Other Assets	1,373	1,220
Total Assets	\$ 33,877	\$ 33,093
Liabilities and Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	\$ 824	\$ 239
Accounts payable	2,362	2,309
Accrued payroll and benefits	409	430
Other accrued liabilities	1,407	1,091
Total Current Liabilities	5,002	4,069
Long-Term Debt	10,392	11,075
Nonrecourse Financial Liabilities of Special Purpose Entities (Note 13)	6,287	6,284
Deferred Income Taxes	3,499	3,127
Pension Benefit Obligation	3,357	3,400
Postretirement and Postemployment Benefit Obligation	318	330
Other Liabilities	457	449
Equity		
Common stock, \$1 par value, 2017 – 448.9 shares and 2016 – 448.9 shares	449	449
Paid-in capital	6,168	6,189
Retained earnings	4,717	4,818
Accumulated other comprehensive loss	(5,108)	(5,362)
	6,226	6,094
Less: Common stock held in treasury, at cost, 2017 – 36.0 shares and 2016 – 37.7 shares	1,681	1,753
Total Shareholders' Equity	4,545	4,341
Noncontrolling interests	20	18
Total Equity	4,565	4,359
Total Liabilities and Equity	\$ 33,877	\$ 33,093

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

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INTERNATIONAL PAPER COMPANY  
Condensed Consolidated Statement of Cash Flows  
(Unaudited)  
(In millions)

	Six Months Ended June 30,	
	2017	2016
Operating Activities		
Net earnings (loss)	\$289	\$374
Depreciation, amortization and cost of timber harvested	702	585
Deferred income tax provision (benefit), net	304	22
Restructuring and other charges	(16 )	1
Litigation settlement	354	—
Pension plan contributions	—	(250 )
Net bargain purchase gain on acquisition of business	(6 )	—
Net (gains) losses on sales and impairments of businesses	9	65
Ilm dividends received	127	58
Equity (earnings) loss, net	(68 )	(108 )
Periodic pension expense, net	158	624
Other, net	73	65
Changes in current assets and liabilities		
Accounts and notes receivable	(230 )	(86 )
Inventories	21	48
Accounts payable and accrued liabilities	(110 )	(76 )
Interest payable	(1 )	13
Other	(328 )	(110 )
Cash Provided By (Used For) Operations	1,278	1,225
Investment Activities		
Invested in capital projects	(664 )	(637 )
Acquisitions, net of cash acquired	(44 )	(61 )
Proceeds from divestitures, net of cash divested	—	101
Proceeds from sale of fixed assets	17	11
Other	(39 )	(106 )
Cash Provided By (Used For) Investment Activities	(730 )	(692 )
Financing Activities		
Repurchases of common stock and payments of restricted stock tax withholding	(46 )	(132 )
Issuance of debt	132	1,204
Reduction of debt	(248 )	(1,070 )
Change in book overdrafts	(6 )	6
Dividends paid	(382 )	(362 )
Cash Provided By (Used For) Financing Activities	(550 )	(354 )
Cash Included in Assets Held for Sale	(4 )	—
Effect of Exchange Rate Changes on Cash	14	25
Change in Cash and Temporary Investments	8	204
Cash and Temporary Investments		
Beginning of period	1,033	1,050
End of period	\$1,041	\$1,254



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

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited 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 six months of the year may not necessarily be indicative of full year results. It is suggested that these 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, 2016 and the Company's Current Report on Form 8-K dated July 31, 2017 (collectively the "2016 10-K"), both of which have previously been filed with the Securities and Exchange Commission. The Current Report on Form 8-K dated July 31, 2017 was filed to retrospectively adjust portions of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, to reflect the adoption of the required guidance in ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." In addition, as a result of an internal reorganization in the 2017 first quarter, the net sales and operating profits for the Asian Distribution operations are included in the results of the businesses that manufacture the products, and as such, prior year amounts have been reclassified to conform with the presentation in 2017.

During the fourth quarter of 2016, the Company finalized the purchase of Weyerhaeuser's pulp business (see [Note 7](#)). Subsequent to the acquisition, the Company began reporting Global Cellulose Fibers as a separate reportable business segment in the fourth quarter of 2016 due to the increased materiality of the results of this business. This segment includes the Company's legacy pulp business and the newly acquired pulp business. As such, amounts related to the legacy pulp business have been reclassified out of the Printing Papers' segment and included in the new Global Cellulose Fibers business segment for all prior periods to conform with current year presentation.

NOTE 2 - RECENT ACCOUNTING DEVELOPMENTS

Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under this new guidance, employers will present the service costs component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components separately from the line items(s) that includes the service cost and outside of any subtotal of operating income. In addition, disclosure of the line(s) used to present the other components of net periodic benefit cost will be required if the components are not presented separately in the income statement. This guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently evaluating the provisions of this guidance; however, we expect the adoption of ASU 2017-07 to result in a change in our adjusted operating profit, which will be offset by a corresponding change in non-operating pension expense to reflect the impact of presenting the amortization of the prior service cost component of net periodic pension expense outside of operating income. We expect to adopt the provisions of this guidance on January 1, 2018 using the retrospective method and do not anticipate a material change to our 2017 adjusted operating profit or non-operating pension expense when they are recast to reflect the standard.

We also do not expect ASU 2017-07 to have a material impact on our statements of financial position or cash flows.

#### Intangibles

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.

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### Accounting Changes

In January 2017, the FASB issued ASU 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings." This guidance addresses the additional qualitative disclosures that a registrant is expected to provide when it cannot reasonably estimate the impact that ASUs 2014-09, 2016-02 and 2016-13 will have in applying SAB Topic 11.M. The Company is currently evaluating the provisions of this guidance.

### 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 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

### Variable Interest Entities

In October 2016, the FASB issued ASU 2016-17, "Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control." Under consolidation guidance in ASU 2015-02 issued by the FASB in 2015, a single decision maker was required to consider an indirect interest held by a related party under common control in its entirety. Under the new guidance, the single decision maker will consider that indirect interest on a proportionate basis. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years. This guidance should be applied retrospectively to all relevant prior periods beginning with the fiscal years in which ASU 2015-02 was initially applied. Early adoption is permitted. The Company adopted this ASU in the first quarter of 2017 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 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within 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. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance; however, we do not anticipate it having a 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 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. Early adoption is

permitted, including adoption in any interim period. The Company is currently evaluating the provisions of this guidance.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Under this new guidance, all excess tax benefits and tax deficiencies will be recognized in the income statement as they occur and will therefore impact the Company's effective tax rate. This guidance replaces current guidance which requires tax benefits that exceed compensation costs (windfalls) to be recognized in equity. The new guidance will also change the cash flow presentation of excess tax benefits, classifying them as operating inflows rather than financing activities as they are currently classified. In addition, the new guidance will allow companies to provide net settlement of stock-based compensation to cover tax withholding as long as the net settlement does not exceed the maximum individual statutory tax rate in the employee's tax jurisdiction. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares

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to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. This ASU was effective for annual reporting periods beginning after December 15, 2016, and interim periods with those years. The Company adopted the provisions of this ASU in the first quarter of 2017 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. The Company expects to adopt this guidance using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. 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.

### Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This guidance replaces most existing revenue recognition guidance and provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This ASU was effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years and permits the use of either the retrospective or cumulative effect transition method; however, in August 2015, the FASB issued ASU 2015-14 which defers the effective date by one year making the guidance effective for annual reporting periods beginning after December 15, 2017. The FASB has continued to clarify this guidance in various updates during 2015, 2016 and 2017, all of which, have the same effective date as the original guidance.

We are currently evaluating the impact of ASU 2014-09 and all related ASU's on our financial statements. During the second quarter of 2017, we finalized our plan to adopt the new revenue guidance effective January 1, 2018 using the modified retrospective transition method. The Company's transition team, including representatives from all of our business segments, continues to review and analyze the impact of the standard on our revenue contracts. Surveys were developed and reviews of customer contracts have been performed in order to gather information and identify areas of the Company's business where potential differences could result in applying the requirements of the new standard to its revenue contracts. The results of the surveys and contract reviews indicate that the adoption of the standard may require acceleration of revenue for products produced by the Company without an alternative future use and where the Company would have a legally enforceable right of payment for production of products completed to date. The Company is continuing to evaluate the terms of its revenue contracts, including evaluating the materiality of the potential impact to the financial statements. In addition, the Company continues to assess the impact of required disclosures around revenue recognition in the notes to the financial statements and any necessary policy and process changes, in preparation for adoption. The Company does not expect that the adoption of the other elements of the standard will result in a material impact on its financial statements.

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## NOTE 3 - EQUITY

A summary of the changes in equity for the six months ended June 30, 2017 and 2016 is provided below:

In millions, except per share amounts	Six Months Ended June 30, 2017			2016		
	International Paper Shareholders Equity	Noncontrolling Interests	Total Equity	International Paper Shareholders Equity	Noncontrolling Interests	Total Equity
Balance, January 1	\$4,341	\$ 18	\$4,359	\$3,884	\$ 25	\$3,909
Issuance of stock for various plans, net	94	—	94	73	—	73
Repurchase of stock	(46 )	—	(46 )	(132 )	—	(132 )
Common stock dividends (\$.9250 per share in 2017 and \$.8800 per share in 2016)	(390 )	—	(390 )	(366 )	—	(366 )
Transactions of equity method investees	3	—	3	(36 )	—	(36 )
Divestiture of noncontrolling interests	—	—	—	—	(3 )	(3 )
Comprehensive income (loss)	543	2	545	601	—	601
Ending Balance, June 30	\$4,545	\$ 20	\$4,565	\$4,024	\$ 22	\$4,046

## NOTE 4 - OTHER COMPREHENSIVE INCOME

The following table presents changes in AOCI for the three-month period ended June 30, 2017:

In millions	Defined Benefit Pension and Postretirement Items (a)	Change in Cumulative Foreign Currency Translation Adjustments (a)	Net Gains and Losses on Cash Flow Hedging Derivatives (a)	Total (a)
Balance, April 1, 2017	\$ (3,016 )	\$ (2,140 )	\$ 4	\$(5,152)
Other comprehensive income (loss) before reclassifications	2	(14 )	(1 )	(13 )
Amounts reclassified from accumulated other comprehensive income	60	—	(2 )	58
Net Current Period Other Comprehensive Income (Loss)	62	(14 )	(3 )	45
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	(1 )	—	(1 )
Balance, June 30, 2017	\$ (2,954 )	\$ (2,155 )	\$ 1	\$(5,108)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.

The following table presents changes in AOCI for the three-month period ended June 30, 2016:

In millions	Defined Benefit Pension and Postretirement	Change in Cumulative Foreign Currency	Net Gains and Losses on Cash Flow	Total (a)
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	Items (a)	Translation Adjustments (a)	Hedging Derivatives (a)	
Balance, April 1, 2016	\$ (3,088 )	\$ (2,314 )	\$ 13	\$(5,389)
Other comprehensive income (loss) before reclassifications	(545 )	137	(14 )	(422 )
Amounts reclassified from accumulated other comprehensive income	335	(3 )	(3 )	329
Net Current Period Other Comprehensive Income (Loss)	(210 )	134	(17 )	(93 )
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	1	—	1
Balance, June 30, 2016	\$ (3,298 )	\$ (2,179 )	\$ (4 )	\$(5,481)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.



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The following table presents changes in AOCI for the six-month period ended June 30, 2017:

In millions	Defined Benefit Pension and Postretirement Items (a)	Change in Cumulative Foreign Currency Translation Adjustments (a)	Net Gains and Losses on Cash Flow Hedging Derivatives (a)	Total (a)
Balance, January 1, 2017	\$ (3,072 )	\$ (2,287 )	\$ (3 )	\$(5,362)
Other comprehensive income (loss) before reclassifications	1	134	8	143
Amounts reclassified from accumulated other comprehensive income	117	—	(4 )	113
Net Current Period Other Comprehensive Income	118	134	4	256
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	(2 )	—	(2 )
Balance, June 30, 2017	\$ (2,954 )	\$ (2,155 )	\$ 1	\$(5,108)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.

The following table presents changes in AOCI for the six-month period ended June 30, 2016:

In millions	Defined Benefit Pension and Postretirement Items (a)	Change in Cumulative Foreign Currency Translation Adjustments (a)	Net Gains and Losses on Cash Flow Hedging Derivatives (a)	Total (a)
Balance, January 1, 2016	\$ (3,169 )	\$ (2,549 )	\$ 10	\$(5,708)
Other comprehensive income (loss) before reclassifications	(528 )	373	(10 )	(165 )
Amounts reclassified from accumulated other comprehensive income	399	(3 )	(4 )	392
Net Current Period Other Comprehensive Income	(129 )	370	(14 )	227
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	—	—	—
Balance, June 30, 2016	\$ (3,298 )	\$ (2,179 )	\$ (4 )	\$(5,481)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.

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The following table presents details of the reclassifications out of AOCI for the three-month and six-month periods ended June 30, 2017 and 2016:

Details About Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income (a)				Location of Amount Reclassified from AOCI
	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016		
In millions:					
Defined benefit pension and postretirement items:					
Prior-service costs	\$(7 )	\$(9 )	\$(13 )	\$(18 )	(b) Cost of products sold
Actuarial gains (losses)	(90 )	(536 )	(177 )	(631 )	(b) Cost of products sold
Total pre-tax amount	(97 )	(545 )	(190 )	(649 )	
Tax (expense) benefit	37	210	73	250	
Net of tax	(60 )	(335 )	(117 )	(399 )	
Change in cumulative foreign currency translation adjustments:					
Business acquisitions/divestitures	—	3	—	3	Net (gains) losses on sales and impairments of businesses
Tax (expense)/benefit	—	—	—	—	
Net of tax	—	3	—	3	
Net gains and losses on cash flow hedging derivatives:					
Foreign exchange contracts	2	4	5	5	(c) Cost of products sold
Total pre-tax amount	2	4	5	5	
Tax (expense)/benefit	—	(1 )	(1 )	(1 )	
Net of tax	2	3	4	4	
Total reclassifications for the period	\$(58)	\$(329)	\$(113)	\$(392)	

(a) Amounts in parentheses indicate debits to earnings/loss.

(b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 16 for additional details).

(c) This accumulated other comprehensive income component is included in our derivatives and hedging activities (see Note 15 for additional details).

#### NOTE 5 - 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. A reconciliation of the amounts included in the computation of earnings (loss) per common share, and diluted earnings (loss) per common share is as follows:

	Three Months Ended	Six Months Ended
	June 30,	June 30,

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In millions, except per share amounts	June 30,			
	2017	2016	2017	2016
Earnings (loss) from continuing operations	\$80	\$40	\$289	\$379
Effect of dilutive securities	—	—	—	—
Earnings (loss) from continuing operations – assuming dilution	\$80	\$40	\$289	\$379
Average common shares outstanding	412.9	411.2	412.5	411.0
Effect of dilutive securities				
Restricted stock performance share plan	3.5	3.5	4.2	4.1
Average common shares outstanding – assuming dilution	416.4	414.7	416.7	415.1
Basic earnings (loss) from continuing operations per common share	\$0.19	\$0.10	\$0.70	\$0.92
Diluted earnings (loss) from continuing operations per common share	\$0.19	\$0.10	\$0.69	\$0.91

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## NOTE 6 - RESTRUCTURING AND OTHER CHARGES

2017: During the three months ended June 30, 2017, restructuring and other charges totaling a \$16 million benefit before taxes were recorded. Details of these charges were as follows:

In millions	Three Months Ended June 30, 2017
Gain on sale of investment in ArborGen	\$ (14 )
Other	(2 )
Total	\$ (16 )

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

2016: There were no restructuring and other charges recorded during the three months ended June 30, 2016.

During the three months ended March 31, 2016, restructuring and other charges totaling \$1 million before taxes were recorded. Details of these charges were as follows:

In millions	Three Months Ended March 31, 2016
Gain on sale of investment in Arizona Chemical	\$ (8 )
Riegelwood mill conversion costs	9
Total	\$ 1

## NOTE 7 - 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), subject to certain closing and post-closing adjustments. Approximately 80% of the purchase price has been preliminarily allocated to property, plant and equipment. The purchase price allocation will be finalized within the measurement period of up to one year from the acquisition date.

## Weyerhaeuser Pulp Business

On December 1, 2016, the Company finalized the purchase of Weyerhaeuser Company's pulp business for approximately \$2.2 billion in cash, subject to post-closing adjustments. Under the terms of the agreement, International Paper acquired four fluff pulp mills, one Northern bleached softwood kraft mill and two converting facilities of modified fiber, located in the United States, Canada and Poland.

The Company is accounting for the acquisition under ASC 805, "Business Combinations" and the newly acquired pulp business's results of operations have been included in International Paper's financial statements beginning with the date of acquisition.



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The following table summarizes the preliminary allocation of the purchase price to the fair value of assets and liabilities acquired as of December 1, 2016:

In millions

Cash and temporary investments	\$12
Accounts and notes receivable	195
Inventory	238
Other current assets	11
Plants, properties and equipment	1,711
Goodwill	52
Other intangible assets	212
Deferred charges and other assets	6
Total assets acquired	2,437
Accounts payable and accrued liabilities	114
Long-term debt	104
Other long-term liabilities	28
Total liabilities assumed	246
Net assets acquired	\$2,191

Due to the timing of the completion of the acquisition, the purchase price allocation is preliminary and could be revised as a result of additional information obtained regarding assets acquired and liabilities assumed, and revisions of provisional estimates of fair values, including, but not limited to, the completion of independent appraisals and valuations related to inventory, property, plant and equipment and intangible assets. While we do not anticipate these changes to the purchase price allocation to be significant, the purchase price allocation will not be finalized until the end of the measurement period of up to one year from the acquisition date.

In connection with the purchase price allocation, inventories were written up by \$33 million to their estimated fair value. During the first quarter of 2017, \$14 million before taxes (\$8 million after taxes) were expensed to Cost of products sold as the related inventory was sold.

The identifiable intangible assets acquired in connection with the acquisition of the Weyerhaeuser pulp business included the following:

In millions	Estimated Fair Value	Average Remaining Useful Life (at acquisition date)
Asset Class:		
Customer relationships and lists	\$ 95	24 years
Trade names, patents, trademarks and developed technology	113	8 years
Other	4	10 years
Total	\$ 212	

#### Holmen Paper Newsprint Mill

On June 30, 2016, the Company completed the acquisition of Holmen Paper's newsprint mill in Madrid, Spain. Under the terms of the acquisition agreement, International Paper purchased the Madrid newsprint mill, as well as associated recycling operations and a 50% ownership interest in a cogeneration facility. The Company intends to convert the mill during the second half of 2017 to produce recycled containerboard with an expected capacity of 419,000 tons. Once completed, the converted mill will support the Company's corrugated packaging business in EMEA.

The Company's aggregate purchase price for the mill, recycling operations and 50% ownership of the cogeneration facility was €53 million (approximately \$59 million using the June 30, 2016 exchange rate). The purchase price allocation was completed in the first quarter of 2017. Approximately \$60 million of the purchase price was allocated to property, plant and equipment, \$14 million to current assets (primarily cash and accounts receivable), \$14 million to equity method investments, \$5 million to long-term assets, \$9 million to short-term liabilities and \$16 million to long-term liabilities related to a supply contract entered into

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with the seller. The final purchase price allocation indicated that the sum of the cash consideration paid is less than the fair value of the underlying assets by \$9 million, resulting in a bargain purchase gain being recorded on this transaction. Additionally, the supply contract estimated losses were increased by \$3 million in the first quarter of 2017 based on actual operating results since acquisition. The resulting net \$6 million gain was recorded to Net bargain purchase gain on acquisition of business in the accompanying statement of operations.

## NOTE 8 - DIVESTITURES / SPINOFF

## Other Divestitures and Impairments

2017: On June 29, 2017, the Company announced that it had entered into a definitive agreement to sell its foodservice business in China to Huhtamaki Hong Kong Limited. Under the terms of the transaction, International Paper will receive approximately RMB 50 million (approximately \$7 million using the June 30, 2017 exchange rate). The transaction is expected to be completed in the third quarter of 2017, subject to satisfaction of closing conditions, including obtaining required governmental approvals. A determination was made that the current book value of the asset group exceeded its estimated fair value of \$7 million, which is the agreed upon purchase price. As a result, a pre-tax charge of \$9 million was recorded during the second quarter of 2017, in the Company's Consumer Packaging segment, to write down the long-lived assets of this business to their estimated fair value. Amounts related to this business included in the Company's statement of operations were immaterial for both the three months and six months ended June 30, 2017.

2016: On June 30, 2016, the Company completed the previously announced sale of its corrugated packaging business in China and Southeast Asia to Xiamen Bridge Hexing Equity Investment Partnership Enterprise. Under the terms of the transaction and after post-closing adjustments, International Paper received a total of approximately RMB 957 million (approximately \$144 million at the June 30, 2016 exchange rate), which included the buyer's assumption of the liability for outstanding loans of approximately \$55 million which are payable up to three years from the closing of the sale. In the first quarter of 2017, a \$5 million payment was received on the remaining outstanding loans and as of June 30, 2017, the remaining payments to be received related to the assumed loans totaled \$9 million.

Subsequent to the announced agreement in March 2016, a determination was made that the current book value of the asset group exceeded its estimated fair value of \$155 million which was the agreed upon selling price, less costs incurred to sell. As a result, a pre-tax charge of \$41 million was recorded during the six months ended June 30, 2016 in the Company's Industrial Packaging segment to write down the long-lived assets of this business to their estimated fair value. In addition, the Company recorded a pre-tax charge of \$24 million in the 2016 second quarter for severance that was contingent upon the sale of this business. The amount of pre-tax losses related to the IP Asia Packaging business included in the Company's statement of operations were \$32 million and \$73 million for the three months and six months ended June 30, 2016.

## NOTE 9 - SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

## Temporary 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 \$753 million and \$757 million at June 30, 2017 and December 31, 2016, respectively.

## Accounts and Notes Receivable

In millions	June 30, 2017	December 31, 2016
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Accounts and notes receivable, net:

Trade	\$2,996	\$ 2,759
Other	287	242
Total	\$3,283	\$ 3,001

The allowance for doubtful accounts was \$71 million and \$70 million at June 30, 2017 and December 31, 2016, respectively.

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## Inventories

In millions	June 30, 2017	December 31, 2016
Raw materials	\$294	\$ 296
Finished pulp, paper and packaging	1,351	1,381
Operating supplies	624	661
Other	92	100
Total	\$2,361	\$ 2,438

## Depreciation

Accumulated depreciation was \$22.3 billion and \$21.6 billion at June 30, 2017 and December 31, 2016. Depreciation expense was \$332 million and \$284 million for the three months ended June 30, 2017 and 2016, respectively, and \$656 million and \$551 million for the six months ended June 30, 2017 and 2016, respectively.

## Interest

Interest payments made during the six months ended June 30, 2017 and 2016 were \$387 million and \$333 million, respectively.

Amounts related to interest were as follows:

In millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest expense	\$186	\$172	\$373	\$332
Interest income	49	43	94	80
Capitalized interest costs	6	7	12	14

## NOTE 10 - GOODWILL AND OTHER INTANGIBLES

## Goodwill

The following table presents changes in goodwill balances as allocated to each business segment for the six-month period ended June 30, 2017:

In millions	Industrial Packaging	Global Cellulose Fibers	Printing Papers	Consumer Packaging	Total
Balance as of January 1, 2017					
Goodwill	\$ 3,316	\$ 19	\$2,143	\$ 1,664	\$7,142
Accumulated impairment losses (a)	(237 )	—	(1,877 )	(1,664 )	(3,778 )
	3,079	19	266	—	3,364
Reclassifications and other (b)	4	—	4	—	8
Additions/reductions	5	(c)33	(d)(1 )	—	37
Balance as of June 30, 2017					
Goodwill	3,325	52	2,146	1,664	7,187
Accumulated impairment losses (a)	(237 )	—	(1,877 )	(1,664 )	(3,778 )

Total	\$ 3,088	\$ 52	\$269	\$ —	\$3,409
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- (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 the acquisition of the newly acquired Moroccan box plant.
- (d) Represents purchase price adjustments related to the the newly acquired pulp business.

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## Other Intangibles

Identifiable intangible assets comprised the following:

In millions	June 30, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships and lists	\$605	\$ 229	\$605	\$ 211
Non-compete agreements	72	70	69	64
Tradenames, patents and trademarks, and developed technology	173	65	173	56
Land and water rights	8	2	10	2
Software	23	21	21	20
Other	48	27	48	26
Total	\$929	\$ 414	\$926	\$ 379

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

In millions	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	2017	2016	2017	2016
Amortization expense related to intangible assets	\$17	\$13	\$33	\$25

## NOTE 11 - INCOME TAXES

International Paper made income tax payments, net of refunds, of \$101 million and \$73 million for the six months ended June 30, 2017 and 2016, respectively.

The following table presents a rollforward of unrecognized tax benefits and related accrued estimated interest and penalties for the six months ended June 30, 2017:

In millions	Unrecognized Tax Benefits	Accrued Interest and Tax Penalties	Estimated
Balance at December 31, 2016	\$ (98 )	\$ (22 )	
Activity for three months ended March 31, 2017	(2 )	2	
Activity for the three months ended June 30, 2017	(42 )	1	
Balance at June 30, 2017	\$ (142 )	\$ (19 )	

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.

Included in the Company's income tax provisions for the six months ended June 30, 2017 and 2016, are \$177 million and \$67 million of income tax benefits, respectively, related to special items. The components of the net provision related to special items were as follows:

In millions	Six Months Ended June 30,	
	2017	2016

Litigation settlement	\$ (135)	\$ —
Other special items	(15 )	(13 )
Restructuring and other charges items	5	—
Tax-related adjustments:		
International investment restructurings	15	(63 )
Income tax refund claims	(85 )	—
Return to accrual	38	23
2010-2012 IRS audit closure	—	(14 )
Income tax provision (benefit) related to special items	\$ (177)	\$ (67)

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NOTE 12 - 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 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 in the aggregate at June 30, 2017. Other than as described above, completion of required remedial actions is not expected to have a material effect on our 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 \$48 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 \$48 million reserve referenced above. In October 2012, the Natural Resource Trustees for this site provided notice to International Paper and other potentially responsible parties 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 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, and (ii) demanding reimbursement of EPA past costs related to this portion of the site 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 for this portion of the site. 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 agreeing 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. As noted below, the Company is involved in allocation/apportionment litigation with regard to the site. Accordingly, it is premature to predict the outcome or estimate our maximum reasonably possible loss with respect to this site. However, we do not believe that any material loss is probable.

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, discha

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reged 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. A decision has not been rendered and it is unclear to what extent the Court will address responsibility for future costs in that decision. We are unable to predict the outcome or estimate our maximum reasonably possible loss. 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., are PRPs at the San Jacinto River Waste Pits Superfund Site (the San Jacinto River Superfund Site) in Harris County, Texas. The PRPs have been actively participating in the activities at the site. In September 2016, the EPA issued a proposed remedial action plan (PRAP) for the site, which identifies 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. At this stage, it is premature to predict the outcome or estimate our maximum reasonably possible loss with respect to this site. However, we do not believe that any material loss is probable.

The Company is also defending an additional lawsuit related to the San Jacinto River Superfund Site brought by approximately 400 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: On June 27, 2017, the Company entered into a settlement agreement with the class plaintiffs in the class action lawsuit captioned Kleen Products LLC et al. v. International Paper Co. et al. (N.D. Ill.) which was filed in September 2010, and is pending in the United States District Court for the Northern District of Illinois. Eight containerboard producers, including the Company, Temple-Inland and Weyerhaeuser Company (the "Released Defendants"), were named as defendants in the lawsuit which alleges a civil violation of Section 1 of the Sherman Act. In particular, the lawsuit alleges that the defendants conspired to limit the supply and thereby increase prices of containerboard products during the period from February 15, 2004, through November 8, 2010. Four similar complaints were filed and consolidated in the Northern District of Illinois. In March 2015, the District Court certified a plaintiff class consisting of all persons who purchased containerboard products directly from the defendant for use or delivery in the United States during the class period.

Under the terms of the settlement agreement, on August 1, 2017, the Company paid \$354 million into a settlement fund in return for a dismissal of the Released Defendants and release of all claims and alleged damages asserted against the Released Defendants in the lawsuit or that are related to or arise from the direct purchase of containerboard products from the Released Defendants by the class members from the beginning of time up to preliminary approval of the settlement agreement by the district court, which occurred on July 13, 2017. Any attorneys' fees awarded by the district court and all costs of notice and claims administration will be paid from the settlement fund.



The settlement agreement remains subject to final approval by the district court and provides for a period of time during which class members will be notified of the settlement and given an opportunity to file a claim form to receive a settlement payment, object to the settlement or do nothing. The district court has scheduled a final approval hearing for October 17, 2017, at which time the parties will request final approval of the settlement and at which time any objectors to the settlement will be heard. If the district court gives final approval to the settlement, the release will be effective as to all class members regardless of whether they filed a claim form and received payment.

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 closely tracks the allegations found in the Kleen Products complaint, alleging a practically identical civil violation of Section 1 of the Sherman Act, but 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.

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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 continues to dispute the allegations made in the Ashley Furniture and Tennessee lawsuits and vigorously defend each. At this time, however, because 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 verdict will not be final until post-trial motions are decided, and the Company will appeal the final judgment thereafter. The Company has numerous and strong bases for appeal, and we believe the Company will prevail on appeal. Because post-trial 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.

### Tax

On October 16, 2015, the Company was notified of a \$110 million tax assessment issued by the state of Sao Paulo, Brazil (State) for tax years 2011 through 2013. The assessment pertains to invoices issued by the Company related to the sale of paper to the editorial segment, which is exempt from the payment of ICMS value-added tax. This assessment is in the preliminary stage. The Company does not believe that a material loss is probable. During the second quarter of 2016, the Company received a favorable first instance judgment vacating the State's assessment. The Company anticipates that the State will appeal the judgment.

### 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 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 financial statements.

## NOTE 13 - VARIABLE INTEREST ENTITIES AND PREFERRED SECURITIES OF SUBSIDIARIES

### Variable Interest Entities

As of June 30, 2017, the fair value of the Timber Notes and Extension Loans is \$4.78 billion and \$4.31 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, 2016.

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
In millions				
Revenue (a)	\$23	\$ 23	\$47	\$ 47
Expense (a)	32	32	64	64
Cash receipts (b)	—	—	47	29
Cash payments (c)	—	—	64	34

(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.

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As of June 30, 2017, the fair value of the Timber Notes and Extension Loans is \$2.23 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, 2016.

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
In millions				
Revenue (a)	\$10	\$10	\$23	\$18
Expense (b)	8	9	23	16
Cash receipts (c)	6	4	12	6
Cash payments (d)	9	6	18	12

(a) The revenue is included in Interest expense, net in the accompanying statement of operations and includes approximately \$4 million and \$9 million for the three and six months ended June 30, 2017 and 2016, respectively, of accretion income for the amortization of the purchase accounting 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 \$1 million and \$3 million for the three and six months ended June 30, 2017 and 2016, respectively, of accretion expense for the amortization of the purchase accounting 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 14 - DEBT

In June 2016, International Paper entered into a commercial paper program with a borrowing capacity of \$750 million. Under the terms of the program, individual maturities 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 June 30, 2017, the company had \$240 million of borrowings outstanding under the program.

At June 30, 2017, the fair value of International Paper's \$11.2 billion of debt was approximately \$12.4 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, 2016.

Maintaining an investment-grade credit rating is an important element of International Paper's financing strategy. At June 30, 2017, the Company held long-term credit ratings of BBB (stable outlook) and Baa2 (stable outlook) by S&P and Moody's, respectively.

Subsequent to June 30, 2017, International Paper priced \$1.0 billion of 4.35% senior unsecured notes with a maturity date in 2048. We expect the sale of this debt to close on or about August 9, 2017. The proceeds from this debt issuance, together with a combination of available cash and other borrowings, will be used to make a voluntary pension contribution in the aggregate amount of \$1.25 billion by September 15, 2017. In addition, International Paper borrowed approximately \$350 million under the commercial paper program. The proceeds from this borrowing, along with cash on hand, were used to pay the amount owed under the Kleen Products LLC et al. v. International Paper Co.

et al. (N.D.III.) settlement agreement discussed in Note 12.

NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES

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

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

In millions	June 30, 2017	December 31, 2016
Derivatives in Cash Flow Hedging Relationships:		
Foreign exchange contracts (a)	\$ 342	\$ 275
Derivatives Not Designated as Hedging Instruments:		
Electricity contract	1	6
Foreign exchange contracts	17	24

(a) These contracts had maturities of two years or less as of June 30, 2017.

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

In millions	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)			
	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Foreign exchange contracts	\$ (1)	\$ (3)	\$ 8	\$ 1
Interest rate contracts	—	(11)	—	(11)
Total	\$ (1)	\$ (14)	\$ 8	\$ (10)

During the next 12 months, the amount of the June 30, 2017 AOCI balance, after tax, that is expected to be reclassified to earnings is a gain of \$3 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:

In millions	Gain (Loss) Reclassified from AOCI (Effective Portion)				Location of Gain (Loss) Reclassified from AOCI (Effective Portion)
	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016		
Derivatives in Cash Flow Hedging Relationships:					
Foreign exchange contracts	\$ 2	\$ 3	\$ 4	\$ 4	Cost of products sold
Total	\$ 2	\$ 3	\$ 4	\$ 4	
	Gain (Loss) Recognized				Location of Gain (Loss) In Statement of Operations

In millions	Three	Six		
	Months	Months		
	Ended	Ended		
	June	June 30,		
	30,	2016	2017	2016
Derivatives Not Designated as Hedging Instruments:				
Electricity contract	\$—	\$ 2	\$ (2)	\$ —
Foreign exchange contracts	—	1	—	1
Interest rate contracts	—	—	—	2
Total	\$—	\$ 3	\$ (2)	\$ 3

The following activity is related to fully effective interest rate swaps designated as fair value hedges:

In millions	2017			2016		
	Issued	Terminated	Undesignated	Issued	Terminated	Undesignated
Second Quarter	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
First Quarter	—	—	—	—	55	—
Total	\$ —	\$ —	\$ —	\$ —	\$ 55	\$ —

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## Fair Value Measurements

For a discussion of the Company's fair value measurement policies under the fair value hierarchy, refer to Note 14 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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		
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	
Derivatives designated as hedging instruments					
Foreign exchange contracts – cash flow	\$9(a)	\$ 3	(b)\$ 4	(c) \$ 4	(c)
Total derivatives designated as hedging instruments	9	3	4	4	
Derivatives not designated as hedging instruments					
Electricity contract	—	—	1	(c) 2	(c)
Total derivatives not designated as hedging instruments	—	—	1	2	
Total derivatives	\$9	\$ 3	\$ 5	\$ 6	

(a) Includes \$7 million recorded in Other current assets and \$2 million recorded in Deferred charges and other assets in the accompanying balance sheet.

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

(c) Included in Other accrued liabilities in the accompanying 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.

## Credit-Risk-Related Contingent Features

Certain of the Company's financial instruments used in hedging transactions are governed by standard credit support arrangements with counterparties. If the lower of the Company's credit rating by Moody's or S&P were to drop below investment grade, the Company would be required to post collateral for all of its derivatives in a net liability position, although no derivatives would terminate. The fair values of derivative instruments containing credit risk-related contingent features in a net liability position were \$1 million and \$3 million as of June 30, 2017 and December 31, 2016, respectively. The Company was not required to post any collateral as of June 30, 2017 or December 31, 2016. For more information on credit-risk-related contingent features, refer to Note 14 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

## NOTE 16 - 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.

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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:

In millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Service cost	\$39	\$36	\$79	\$73
Interest cost	139	158	277	314
Expected return on plan assets	(193)	(206)	(385)	(412)
Actuarial loss	88	96	173	190
Amortization of prior service cost	7	10	14	20
Settlement	—	439	—	439
Net periodic pension expense	\$80	\$533	\$158	\$624

In the first quarter of 2016, International Paper offered a voluntary, limited-time opportunity for former employees who were participants in the Retirement Plan of International Paper Company (the Pension Plan) to request early payment of their entire Pension Plan benefit in the form of a single lump sum payment. The amount of total payments under this program was approximately \$1.2 billion, and were made from Plan trust assets on June 30, 2016. Based on the level of payments made, settlement accounting rules applied and resulted in a plan remeasurement as of the June 30, 2016 payment date. The discount rate used in the plan remeasurement was 3.80%, down from 4.40% at December 31, 2015. As a result of settlement accounting, the Company recognized a pro-rata portion of the unamortized net actuarial loss, after remeasurement, resulting in a \$439 million non-cash charge to the Company's earnings in the second quarter of 2016.

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 voluntary cash contributions of \$250 million to the qualified pension plan in the first six months of 2016. No contributions have been made to date in 2017, but the Company intends to make a voluntary cash contribution in the aggregate amount of \$1.25 billion to the qualified pension plan by September 15, 2017. The nonqualified defined benefit plans are funded to the extent of benefit payments, which totaled \$10 million for the six months ended June 30, 2017.

## NOTE 17 - 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 June 30, 2017, 13.0 million shares were available for grant under the ICP.

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

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2016	Three Months Ended June 30, 2017	Six Months Ended June 30, 2016
In millions				
Total stock-based compensation expense (selling and administrative)	\$39	\$41	\$82	\$67
Income tax benefits related to stock-based compensation	(1 )	—	47	33

At June 30, 2017, \$133 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 1.9 years.

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## Performance Share Plan

During the first six months of 2017, the Company granted 2.2 million performance units at an average grant date fair value of \$51.78.

## NOTE 18 - BUSINESS SEGMENT INFORMATION

International Paper's business segments, Industrial Packaging, Global Cellulose Fibers, Printing Papers, and Consumer Packaging, 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. Subsequent to the acquisition of the Weyerhaeuser pulp business in December 2016, the Company began reporting the Global Cellulose Fibers business as a separate business segment due to the increased materiality of the results of this business. This segment includes the Company's legacy pulp business and the newly acquired pulp business. As such, amounts related to the legacy pulp business have been reclassified out of the Printing Papers business segment and into the new Global Cellulose Fibers business segment for all prior periods.

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 noncontrolling interests, excluding corporate items and corporate special items. Business 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.

The Company also has a 50% equity interest in Ilim Holding S.A. (Ilim) operating in Russia, that is a separate reportable business segment. The Company recorded equity earnings (losses), net of taxes, of \$21 million and \$46 million for the three months ended June 30, 2017 and 2016, respectively, and \$71 million and \$108 million for the six months ended June 30, 2017 and 2016, respectively, for Ilim. The Company received cash dividends from the joint venture of \$127 million during the first quarter of 2017. At June 30, 2017 and December 31, 2016, the Company's investment in Ilim was \$264 million and \$302 million, respectively, which was \$158 million and \$164 million, respectively, more than the Company's proportionate share of the joint venture's underlying net assets. The differences primarily relate to purchase price fair value adjustments and currency translation adjustments. The Company is party to a joint marketing agreement with Ilim, under which the Company purchases, markets and sells paper produced by Ilim. Purchases under this agreement were \$51 million and \$45 million for the three months ended June 30, 2017 and 2016, respectively, and \$98 million and \$84 million for the six months ended June 30, 2017 and 2016, respectively.

Sales by business segment for the three months and six months ended June 30, 2017 and 2016 were as follows:

In millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Industrial Packaging	\$3,706	\$3,520	\$7,205	\$6,931
Global Cellulose Fibers	612	259	1,176	471
Printing Papers	1,017	1,012	2,012	1,984
Consumer Packaging	474	501	940	996
Corporate and Intersegment Sales	(37)	) 30	(50)	) 50
Net Sales	\$5,772	\$5,322	\$11,283	\$10,432



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Operating profit by business segment for the three months and six months ended June 30, 2017 and 2016 were as follows:

In millions	Three Months Ended June 30,		Six Months Ended June 30,		
	2017	2016	2017	2016	
Industrial Packaging	\$50	(a) \$458	(f) \$415	(a) \$854	(f)
Global Cellulose Fibers	7	(b) (21 )	(g) (63 )	(b) (71 )	(g)
Printing Papers	86	(c) 117	186	(c) 252	
Consumer Packaging	(14 )	(d) 73	19	(d) 89	(h)
Business Segment Operating Profit	129	627	557	1,124	
Earnings (loss) from continuing operations before income taxes and equity earnings	(29 )	(14 )	215	303	
Interest expense, net	137	(e) 129	279	(e) 252	
Noncontrolling interests/equity earnings adjustment (j)	(1 )	—	(1 )	—	
Corporate items, net	4	25	15	46	
Special items, net	(16 )	—	(16 )	(8 )	
Non-operating pension expense	34	487	(i) 65	531	(i)
Adjusted Operating Profit	\$129	\$627	\$557	\$1,124	
Equity earnings (loss), net of taxes – Ilim	\$21	\$46	\$71	\$108	

Includes a charge of \$354 million for the three months and six months ended June 30, 2017, related to the agreement to settle the Kleen Products anti-trust class action lawsuit, a gain of \$6 million for the six months ended (a) June 30, 2017, for a net bargain purchase gain associated with the June 2016 acquisition of Holmen Paper's newsprint mill in Madrid, Spain, and charges of \$3 million and \$4 million for the three months and six months ended June 30, 2017, respectively, for other items.

Includes charges of \$5 million and \$9 million for the three months and six months ended June 30, 2017, respectively, for costs associated with the acquisition of the pulp business acquired in December 2016, a charge of (b) \$14 million for the six months ended June 30, 2017, for the amortization of the inventory fair value step-up for that business and a charge of \$1 million for the six months ended June 30, 2017, for other items.

(c) Includes a charge of \$2 million for the three months and six months ended June 30, 2017, for other items.

(d) Includes a charge of \$9 million for the three months and six months ended June 30, 2017, for the impairment of the assets of our Foodservice business in Asia.

(e) Includes a gain of \$4 million for the three months and six months ended June 30, 2017, for interest income associated with an income tax refund claim.

Includes charges of \$28 million and \$65 million for the three months and six months ended June 30, 2016, (f) respectively, for the impairment of the assets of our corrugated packaging business in Asia and costs associated with the sale of that business.

(g) Includes a charge of \$5 million for the three months and six months ended June 30, 2016, for costs associated with the agreement to purchase the Weyerhaeuser pulp business.

(h) Includes a charge of \$9 million for the six months ended June 30, 2016, for costs associated with the Riegelwood conversion to 100% pulp production.

(i) Includes a charge of \$439 million for the three months and six months ended June 30, 2016, for a settlement accounting charge associated with term-vested lump sum payments.

Operating profits for business segments include each segment's percentage share of the profits of subsidiaries (j) included in that segment that are less than wholly owned. The pre-tax noncontrolling interest and equity earnings for these subsidiaries are adjusted here to present consolidated earnings before income taxes and equity earnings.



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

Diluted earnings (loss) attributable to International Paper common shareholders were \$80 million (\$0.19 per share) in the second quarter of 2017, compared with \$209 million (\$0.50 per share) in the first quarter of 2017 and \$40 million (\$0.10 per share) in the second quarter of 2016. 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 \$270 million (\$0.65 per share) in the second quarter of 2017, compared with 2017 first-quarter earnings of \$249 million (\$0.60 per share) and 2016 second-quarter earnings of \$379 million (\$0.92 per share).

International Paper delivered solid results in the 2017 second quarter with significant contributions from our North American Industrial Packaging and Global Cellulose Fibers businesses. Key drivers to the 2017 second quarter results were higher prices in our North American Industrial Packaging and Global Cellulose Fibers businesses along with healthy demand for box and containerboard. We saw positive momentum in our Global Cellulose Fibers business with the realization of synergies at a faster than expected rate. The Company also completed the acquisition of Europac's Tangier facility in Morocco which will complement IP's existing EMEA packaging business. Additionally, during the 2017 second quarter, the Company settled the Kleen products class action lawsuit and on August 1, 2017 paid \$354 million into a settlement fund.

Price was higher in our North American Industrial Packaging business versus 2017 first quarter as we continue to implement and realize recent price increases in North America and export markets. The Global Cellulose Fibers business delivered significantly improved sequential quarter results on record fluff pulp volume and continued price realization. Volumes were seasonally higher relative to the 2017 first quarter, particularly in our North American Industrial Packaging business. Operations were overall favorable versus the 2017 first quarter primarily driven by solid operating performance in our North American Industrial Packaging and Global Cellulose Fibers businesses. The Company executed a heavy maintenance outage schedule during the 2017 second quarter, with about 75% of the planned outages having now been completed in the first half of the year. Input costs were unfavorable versus the 2017 first quarter primarily due to higher than expected OCC costs; however these costs were offset by lower wood, chemicals and energy costs. Our Ilim joint venture delivered solid results, driven primarily by seasonally higher volume and improved pulp pricing; however, results were negatively impacted by non-cash foreign currency movements primarily associated with Ilim's U.S. dollar denominated net debt.

Looking ahead to the 2017 third quarter, we expect to see significant benefits from the implementation of recent price increases in our North American Industrial Packaging business. Additionally, we should see further price realization on North American Containerboard exports and benefits from the on-going implementation of price increases in the North American Consumer Packaging business. Continued benefits from previous fluff pulp price increases are expected to be partially offset by lower seasonal volume and lower softwood pulp prices. Volumes are expected to be stable relative to the 2017 second quarter; however, our North American Industrial Packaging business will be impacted by one less shipping day during the 2017 third quarter. The North American Industrial Packaging Business is also expected to benefit from better operational performance and lower operating costs. Outage expenses are expected to be significantly lower in the 2017 third quarter as we have completed a significant portion of 2017 planned maintenance outages in the first half of the year. We anticipate higher input costs in the 2017 third quarter, driven primarily by OCC and energy costs. In our Ilim joint venture, we expect sequentially lower volumes due to seasonality and lower average softwood pulp prices. Our outlook for the Ilim equity earnings also assumes a June 30, 2017 RUB/USD exchange rate on Ilim's U.S. dollar denominated net debt.

Adjusted Operating Earnings and Adjusted Operating Earnings Per Share are non-GAAP measures. Diluted 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 items



considered by management to be unusual from the earnings reported under GAAP, non-operating pension expense (includes all U.S. pension costs, excluding service costs and prior service costs), and discontinued operations. 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.

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

	Three Months Ended June 30,	2016	Three Months Ended March 31, 2017
Diluted Earnings (Loss) Attributable to Shareholders	\$80	\$40	\$209
Add back - Discontinued operations (gain) loss	—	—	—
Diluted Earnings (Loss) from Continuing Operations	80	40	209
Add Back - Non-operating pension (income) expense	34	487	31
Add Back - Net special items expense (income)	353	33	14
Income tax effect - Non-operating pension and special items expense	(197 )	(181 )	(5 )
Adjusted Operating Earnings (Loss) Attributable to Shareholders	\$270	\$379	\$249
Three Months Ended June 30,	Three Months Ended March 31,		