AGERE SYSTEMS INC
Form SC 13G
February 12, 2004

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. ------------)

Agere Systems Inc.

(Name of Issuer)

Common

(Title of Class of Securities)

00845V100

(CUSIP Number)

Check the following box if a fee is being paid with this statement /_/. (A fee is not required only if the filing person: (1) has a previous statement on file reporting beneficial ownership of more than five percent of the class of securities described in item 1; and (2) has filed no amendment subsequent thereto reporting beneficial ownership of five percent or less of such class.) (See Rule 13d-7).

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other previsions of the Act (however, see the Notes)

Item 1(a) NAME OF ISSUER
Agere Systems Inc.
Item 1(b) ADDRESS OF ISSUERS PRINCIPAL EXECUTIVE OFFICES
555 Union Blvd.
Allentown, PA 18109
Item 2(a) NAME OF PERSON FILING
Davis Selected Advisers, L.P.
Item 2(b) ADDRESS OF PRINCIPAL BUSINESS OFFICE
2949 East Elvira Road, Suite 101
Tucson, Arizona 85706
Item 2(c) CITIZENSHIP
Colorado Limited Partnership
Item 2(d) TITLE OF CLASS OF SECURITIES
Common Stock
Item 2(e) CUSIP NUMBER
00845V100
Item 3 FIELD PURSUANT TO RULE 13d-1(b)
(e) [X] Investment Adviser registered under Section 203 of the Investment Advisers Act of 1940
Item 4 OWNERSHIP
(a) Amount beneficially owned 69,173,144 shares

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote

Davis Selected Advisers, L. P. 69,173,144

(ii) shared power to vote to direct the vote

N/A

(iii) sole power to dispose or to direct the disposition of

Davis Selected Advisers, L. P.

(iv) shared power to dispose or to direct the disposition of

N/A

Item 5 Not applicable

Item 6 Not applicable

Item 7 Not applicable

Item 8 Not applicable

Item 9 Not applicable

Item 10 CERTIFICATION

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer or such securities and were not acquired in connection with or as a participant in any transaction having such purposes or effect.
After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

SIGNATURE /s/ Anthony Frazia

PRINT Anthony Frazia, Chief Compliance Officer

DATE February 13, 2004

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Special items include the following tax expenses (benefits):

	Three Months Ended		
	June 30,		March 31,
In millions	2018	2017	2018
Income tax refund claims	$—	$(85)	$ —
Pension contribution return to accrual	—	38	—
State income tax legislative changes	9	—	—
Total	$9	$(47)	$ —

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

	Six Months Ended June 30, 2018		2017	
In millions	Before Tax	After Tax	Before Tax	After Tax
Business Segments				
EMEA Packaging optimization	$ 48	$ 35	$ —	$ —
Abandoned property removal	18	14	7	5
Kleen Products anti-trust class action lawsuit settlement	—	—	354	219
Weyerhaeuser pulp business acquisition inventory fair value step-up amortization	—	—	14	8
Weyerhaeuser pulp business integration costs	—	—	9	5
Holmen mill bargain purchase gain	—	—	(6)	(6)
Business Segments Total	66	49	378	231
Corporate				
Smurfit-Kappa acquisition proposal costs	12	9	—	—
India Packaging business evaluation write-off	—	—	(2)	(2)
Legal settlement	9	7	—	—
Gain of sale of investment in ArborGen	—	—	(14)	(9)
Foodservice Asia impairment	—	—	9	4
Interest income related to income tax refund claim	—	—	(4)	(2)
Corporate Total	21	16	(11)	(9)
Total special items	87	65	367	222
	40	30	65	40

Non-operating pension expense				
Total special items and non-operating pension expense	$ 127	$ 95	$ 432	$ 262

Special items include the following tax expenses (benefits):

In millions	Six Months Ended June 30, 2018	2017
Income tax refund claims	$—	$(85)
State income tax legislative changes	9	—
Pension contribution return to accrual	—	38
International investment restructuring	—	15
Total	$9	$(32)

BUSINESS SEGMENT OPERATING RESULTS

The following tables present net sales and operating profit (loss) which is the Company's measure of segment profitability. The tables include a detail of special items in each year, where applicable, in order to show operating profit before special items. The Company calculates Operating Profit Before Special Items (non-GAAP) by excluding the pre-tax effect of items considered by management to be unusual from the earnings reported under U.S. generally accepted accounting principles (“GAAP”). Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. International Paper believes that using this information, along with net earnings, provides for a more complete analysis of the results of operations by quarter. Net earnings attributable to International Paper is the most directly comparable GAAP measure. See Note 20 - Business Segment Information in the Condensed Notes to the Consolidated Financial Statements for the GAAP reconciliation of segment operating profit.

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Industrial Packaging

Total Industrial Packaging	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$4,022	$ 3,827	$ 7,849	$3,785	$3,577	$7,362
Operating Profit	$537	$ 437	$ 974	$64	$384	$448
Holmen mill bargain purchase gain	—	—	—	—	(6)	(6)
Kleen Products anti-trust settlement	—	—	—	354	—	354
Abandoned property removal	6	5	11	3	1	4
EMEA Packaging optimization	26	22	48	—	—	—
Operating Profit Before Special Items	$569	$ 464	$ 1,033	$421	$379	$800

Industrial Packaging net sales for the second quarter of 2018 were 5% higher than in the first quarter of 2018 and were 6% higher than in the second quarter of 2017. Operating profit before special items was 23% higher in the second quarter of 2018 than in the first quarter of 2018 and 35% higher than in the second quarter of 2017.

North American Industrial Packaging	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales (a)	$3,582	$ 3,369	$ 6,951	$3,336	$ 3,155	$ 6,491
Operating Profit	$574	$ 459	$ 1,033	$51	$ 361	$ 412
Kleen Products anti-trust settlement	—	—	—	354	—	354
Abandoned property removal	6	5	11	3	1	4
Operating Profit Before Special Items	$580	$ 464	$ 1,044	$408	$ 362	$ 770

(a) Includes intra-segment sales of $46 million and $31 million for the three months ended June 30, 2018 and 2017, respectively; $58 million and $32 million for the three months ended March 31, 2018 and 2017, respectively; and $104 million and $63 million for the six months ended June 30, 2018 and 2017, respectively.

North American Industrial Packaging sales volumes for boxes in the second quarter of 2018 were seasonally higher than in the first quarter of 2018 and include one more shipping day. Containerboard shipments to both domestic and export markets decreased despite continuing strong export market demand due to production constraints at the mills. Total planned maintenance downtime was 154,000 tons in the 2018 second quarter, a decrease of 27,000 tons from 181,000 tons in the 2018 first quarter. Average sales margins for boxes increased reflecting higher sales prices for boxes. Average sales prices for containerboard continued to increase in both the domestic and export markets. Input costs were lower, primarily for recycled fiber and energy. Planned maintenance downtime costs were $9 million higher in the 2018 second quarter compared with the 2018 first quarter. Manufacturing operating costs improved largely due to the non-recurrence of the weather and other unplanned events that occurred in the first quarter.

Compared with the second quarter of 2017, sales volumes for boxes were higher in the second quarter of 2018 due to market demand growth and one more shipping day. Sales volumes for containerboard were relatively flat in the domestic market, but down in the export markets. Total planned maintenance downtime was 3,000 tons lower in the 2018 second quarter than in the 2017 second quarter. Average sales margins for boxes increased significantly, primarily due to higher average sales prices. Average sales prices were also significantly higher for sales to export containerboard markets, reflecting sales price increases implemented during 2017 and 2018. Input costs for recycled fiber were lower, but were partially offset by higher costs for freight, wood and chemicals. Planned maintenance downtime costs were $11 million higher in the second quarter of 2018 compared with the second quarter of 2017.

Entering the third quarter of 2018, domestic sales volumes for boxes are expected to be seasonally lower and will include one fewer shipping day. As a result, containerboard export shipments are expected to increase. Input costs are expected to increase for recycled fiber, energy and chemicals. Planned maintenance downtime costs should be $50 million lower in the 2018 third quarter than in the 2018 second quarter.

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EMEA Industrial Packaging	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$344	$ 362	$ 706	$341	$ 317	$ 658
Operating Profit	$(43)	$ (34)	$ (77)	$5	$ 14	$ 19
EMEA Packaging optimization	26	22	48	—	—	—
Holmen mill net bargain purchase gain	—	—	—	—	(6)	(6)
Operating Profit Before Special Items	$(17)	$ (12)	$ (29)	$5	$ 8	$ 13

EMEA Industrial Packaging sales volumes for boxes in the second quarter of 2018 were lower than in the first quarter of 2018 as seasonally lower volumes in Morocco were partially offset by higher volumes in Turkey and the Euro-zone. Average sales prices improved, but margins remained squeezed due to higher input costs for board. Operating costs were higher due to foreign exchange rate driven inflation in Turkey as well as productivity issues and a transportation strike in France. Operating profit continues to be negatively impacted by costs associated with the Madrid mill conversion to recycled containerboard production.

Compared with the second quarter of 2017, sales volumes in the second quarter of 2018 were lower due to a weak fruit and vegetable season in the Euro-zone. Average sales prices for boxes increased, but were offset by higher input costs for board. Operating costs were unfavorably impacted by inflation, particularly in Morocco and Turkey. Also, compared with the second quarter of 2017, operating profit declined due to the absence of newsprint sales and operating profit from the Madrid mill.

Looking ahead to the third quarter of 2018, sales volumes are expected to reflect seasonally weaker demand in Morocco. Average sales margins are expected to improve due to the realization of previous sales price increases and the stabilization of input costs for board. Operating costs should be lower, but conversion and start-up costs at the Madrid mill will continue to adversely impact operating profit.

Brazilian Industrial Packaging	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$56	$ 62	$ 118	$60	$ 59	$ 119
Operating Profit	$(11)	$ (8)	$ (19)	$(6)	$ (10)	$ (16)

Brazilian Industrial Packaging sales volumes in the second quarter of 2018 compared with the first quarter of 2018 were slightly lower for containerboard, but unchanged for boxes. Average sales margins were flat as the benefit from higher box sales prices was offset by an unfavorable geographic mix. Planned maintenance downtime costs were $1 million higher in the second quarter of 2018 than in the first quarter of 2018. Operating costs were higher and input costs, primarily for recycled fiber and utilities, were also higher. A nationwide trucker's strike during the quarter negatively impacted operating profit by approximately $3 million.

Compared with the second quarter of 2017, sales volumes in the second quarter of 2018 were higher for boxes, but lower for containerboard. Average sales prices increased for boxes, but were partially offset by unfavorable customer and segment mix. Input costs were higher, primarily for recycled fiber. Planned maintenance downtime costs were $1 million higher in the second quarter of 2018 than in the second quarter of 2017. Operating costs also increased.

Looking ahead to the third quarter of 2018, sales volumes for boxes should be seasonally higher. Average sales margins are expected to increase, reflecting the realization of previous sales price increases for boxes and a more favorable customer mix. Input costs should be higher for natural gas and purchased pulp. Planned maintenance downtime costs should be $1 million lower in the third quarter.

European Coated Paperboard	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$86	$ 92	$ 178	$79	$ 78	$ 157
Operating Profit	$17	$ 20	$ 37	$14	$ 19	$ 33

European Coated Paperboard sales volumes in the second quarter of 2018 compared with the first quarter of 2018 were lower in both Europe and Russia. Average sales margins increased in both regions, reflecting higher sales prices and a favorable mix. Input costs were higher, mainly in Europe, for wood, energy, chemicals and purchased fiber. Planned maintenance downtime costs were flat in the second quarter of 2018 compared with the first quarter of 2018. Mill operating costs in Europe were lower as the Kwidzyn mill recovered from the first quarter fire, but were more than offset by higher other operating costs, while in Russia, mill operating costs were higher.

Compared with the second quarter of 2017, sales volumes decreased in both Europe and Russia. However, average sales margins increased in both regions due to higher average sales prices and a favorable mix. Input costs increased for wood,

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energy and chemicals in both Europe and Russia, and in Europe purchased fiber prices also increased. Planned maintenance downtime costs were $2 million higher compared with the second quarter of 2017.

Entering the third quarter of 2018, sales volumes are expected to be higher in both Europe and Russia. Average sales margins are expected to be flat in both Europe and Russia. Input costs in Europe are expected to increase for energy, chemicals and purchased fiber. In Russia, input costs should increase for wood and energy. No planned maintenance outages are scheduled in the 2018 third quarter, so downtime costs will be $4 million lower than in the second quarter of 2018.

Global Cellulose Fibers

Total Global Cellulose Fibers	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$692	$ 677	$ 1,369	$612	$ 564	$1,176
Operating Profit	$66	$ 11	$ 77	$7	$ (70)	$(63)
Acquisition costs	—	—	—	5	4	9
Inventory fair value step-up amortization	—	—	—	—	14	14
Abandoned property removal	3	4	7	—	1	1
Operating Profit Before Special Items	$69	$ 15	$ 84	$12	$ (51)	$(39)

Global Cellulose Fibers net sales were 2% higher in the second quarter of 2018 than in the first quarter of 2018 and 13% higher than in the second quarter of 2017. Operating profit before special items were significantly higher in the second quarter of 2018 than in both the first quarter of 2018 and the second quarter of 2017.

Sales volumes in the second quarter of 2018 increased slightly compared with the first quarter of 2018. Average sales prices were higher for fluff pulp and market pulp. Input costs, primarily for energy, were lower. Planned maintenance downtime costs in the second quarter of 2018 were $31 million lower than in the first quarter of 2018. Operating costs were lower due to the non-repeat of the first quarter extreme weather conditions and reliability issues. In both Europe and Russia, sales volumes were lower, while average sales prices were higher. Planned maintenance downtime costs in Europe and Russia were $5 million higher in the second quarter of 2018 compared with the previous quarter. Operating costs were favorable.

Compared with the second quarter of 2017, sales volumes were flat in the second quarter of 2018. Average sales prices improved significantly across all product lines reflecting the realization of previous price increases. Input costs increased for chemicals, but were partially offset by lower natural gas costs. Planned maintenance downtime costs in the second quarter of 2018 were $14 million lower than in the second quarter of 2017. Distribution costs and operating costs were higher. In Europe and Russia, sales volumes decreased. Average sales margins improved significantly, reflecting higher average sales prices and a favorable mix. Input costs were higher, primarily for wood in Russia. Planned maintenance downtime costs in Europe and Russia were $7 million higher than in the second quarter of 2017.

Entering the third quarter of 2018, sales volumes are expected to increase, primarily for fluff pulp, as market demand remains robust. Average sales prices are expected to continue to increase due to the realization of previous price increases. Input costs are expected to be lower. Planned maintenance downtime costs should be $6 million lower in the third quarter of 2018 in North America, and $8 million lower in Europe and Russia. Sales volumes are expected to increase in both Europe and Russia, while average sales margins will decline.

Printing Papers

Total Printing Papers	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$1,060	$ 1,053	$ 2,113	$1,017	$ 995	$ 2,012
Operating Profit	$94	$ 64	$ 158	$86	$ 100	$ 186
Abandoned property removal	—	—	—	2	—	2
Operating Profit Before Special Items	$94	$ 64	$ 158	$88	$ 100	$ 188

Printing Papers net sales for the second quarter of 2018 were 1% higher than in the first quarter of 2018 and 4% higher than in the second quarter of 2017. Operating profit before special items in the second quarter of 2018 was 47%

higher than in the first quarter of 2018 and 7% higher than in the second quarter of 2017.

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North American Papers	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$493	$ 458	$ 951	$446	$ 468	$ 914
Operating Profit	$25	$ 1	$ 26	$19	$ 33	$ 52
Abandoned property removal	—	—	—	2	—	2
Operating Profit Before Special Items	$25	$ 1	$ 26	$21	$ 33	$ 54

North American Papers sales volumes in the second quarter of 2018 were higher than in the first quarter of 2018 reflecting improvements in mill operations and demand from the first quarter of 2018. Average sales prices were higher due to the full realization of previous sales price increases. Average sales margins were impacted by a favorable geographic mix. Input costs were lower for wood, partially offset by higher costs for chemicals. Planned maintenance downtime costs were $2 million higher in the second quarter of 2018, compared with the first quarter of 2018. Operating costs were seasonally lower.

Compared with the second quarter of 2017, sales volumes in the second quarter of 2018 increased, due to improved customer demand. Average sales prices were higher reflecting the impact of price increases in late 2017 and in 2018. Average sales margins were adversely affected by an unfavorable mill sourcing mix. Input costs increased, primarily for chemicals. Planned maintenance downtime costs were $6 million lower than in the second quarter of 2017.

Entering the third quarter of 2018, sales volumes are expected to be lower due to planned inventory build to help reduce cost to serve. Average sales price realizations for uncoated freesheet paper should reflect the realization of previous sales price increases. Input costs are expected to be flat, while operating costs should be lower. Planned maintenance downtime costs should be $23 million lower in the third quarter.

European Papers	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$302	$ 319	$ 621	$299	$ 274	$ 573
Operating Profit	$15	$ 21	$ 36	$26	$ 29	$ 55

European Papers sales volumes for uncoated freesheet paper in the second quarter of 2018 compared with the first quarter of 2018 were higher in Russia, but lower in Europe. Average sales margins for uncoated freesheet paper increased in both regions due to the realization of sales price increases combined with a favorable mix. Input costs were higher, primarily for chemicals in Europe. Planned maintenance downtime costs in the second quarter of 2018 included outages at the Svetogorsk and Saillat mills and were $10 million higher than in the first quarter of 2018. Operating costs were higher due to continuing costs associated with first quarter incidents at the Kwidzyn mill and productivity issues at the Saillat mill during the second quarter.

Sales volumes for uncoated freesheet paper in the second quarter of 2018 compared with the second quarter of 2017 were lower in Europe, but higher in Russia. Average sales prices for uncoated freesheet paper increased in both regions reflecting increases implemented in late 2017 and in 2018. Input costs, primarily for wood in Russia and for purchased pulp, wood, chemicals and energy in Europe, were higher. Planned maintenance downtime costs in the second quarter of 2018 were $12 million higher than in the second quarter of 2017.

Looking forward to the third quarter of 2018, sales volumes for uncoated freesheet paper are expected to be lower in Russia, but higher in Europe due to increased availability as operations recover from the Kwidzyn incidents. Input costs for wood, energy and freight are expected to be higher in Russia, and purchased fiber and energy costs are expected to be higher in Europe. Planned maintenance downtime costs should be $18 million lower than in the second quarter of 2018 with no outages scheduled in the third quarter. Operating costs are expected to be favorable.

Brazilian Papers	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales (a)	$222	$ 229	$ 451	$232	$ 214	$ 446
Operating Profit	$49	$ 40	$ 89	$43	$ 39	$ 82

(a) Includes intra-segment sales of $8 million and $7 million for the three months ended June 30, 2018 and 2017, respectively; $5 million and $9 million for the three months ended March 31, 2018 and 2017, respectively; and $13 million and $16 million for the six months ended June 30, 2018 and 2017, respectively.

Brazilian Papers sales volumes in the second quarter of 2018 were negatively impacted for shipments to both domestic and export markets by a nationwide trucker's strike during the quarter. However, compared with the first quarter of 2018, sales volumes in export markets were higher, but in the domestic market volumes were lower. Average sales margins increased due to higher average sales prices for domestic and export uncoated freesheet papers, partially offset by an unfavorable geographic mix. Input costs increased for purchased pulp and energy. Planned maintenance downtime costs were $1 million higher in the

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second quarter of 2018 than in the first quarter of 2018. Overall, operating profit in the quarter was unfavorably affected by approximately $7 million due to the trucker's strike.

Compared with the second quarter of 2017, sales volumes for uncoated freesheet paper in the second quarter of 2018 were lower in export markets, but slightly higher in the domestic market. Average sales margins improved, reflecting higher average sales prices for both domestic and export markets. Input costs were higher, primarily for purchased pulp and energy. Planned maintenance downtime costs were $1 million higher in the second quarter of 2018 than in the second quarter of 2017.

Entering the third quarter of 2018, sales volumes for uncoated freesheet paper are expected to be seasonally stronger in Brazil and the Latin American export market. Average sales margins should benefit from the realization of previous domestic and export sale increases and a favorable geographic mix. Input costs are expected to increase for wood, purchased pulp and energy. Planned maintenance outage costs should be $4 million lower than in the second quarter of 2018 with no outages scheduled.

Indian Papers	2018			2017		
In millions	2nd Quarter	1st Quarter	Six Months	2nd Quarter	1st Quarter	Six Months
Sales	$51	$ 52	$ 103	$47	$ 48	$ 95
Operating Profit	$5	$ 2	$ 7	$(2)	$ (1)	$ (3)

Indian Papers sales volumes in the second quarter of 2018 compared with the first quarter of 2018 were essentially flat. Average sales prices were higher reflecting growing demand for uncoated freesheet paper and stable economic conditions. Operating costs decreased due to improved mill efficiencies and lower input costs for fiber, chemicals and fuel.

Compared with the second quarter of 2017, sales volumes in the second quarter of 2018 were higher. Average sales prices also increased. Operating costs were lower, reflecting mill efficiencies, while input costs were higher for chemicals and fuel, partially offset by lower wood costs.

Looking ahead to the third quarter of 2018, sales volumes are expected to be lower due to production constraints related to planned maintenance downtime at the Rajahmundry mill. Average sales prices should be slightly higher due to the realization of previous price increases, as demand remains strong. Input costs are expected to be higher. Planned maintenance outage costs should be $2 million higher in the third quarter.

Equity Earnings, Net of Taxes – Ilim

Since October 2007, International Paper and Ilim Holding S.A. (Ilim) have operated a 50:50 joint venture in Russia. Ilim is a separate reportable industry segment. The Company recorded equity earnings, net of taxes, of $57 million in the second quarter of 2018, compared with $92 million in the first quarter of 2018 and $21 million in the second quarter of 2017. In the second quarter of 2018, the after-tax foreign exchange impact primarily on the remeasurement of U.S. dollar-denominated net debt was a loss of $39 million compared with a loss of $0.4 million in the first quarter of 2018.

Compared with the first quarter of 2018, sales volumes in the second quarter of 2018 were 4% higher, primarily for sales of softwood pulp and containerboard in Russia and other export markets, partially offset by lower sales of softwood pulp and containerboard in China. Average sales prices were higher, primarily for softwood pulp and containerboard in China and other export markets. Average sales prices in Russia were lower across all products and grades. In the second quarter of 2018, input costs, primarily for wood and labor, were higher. Higher distribution and planned annual maintenance costs were also incurred in the second quarter of 2018.

Compared with the second quarter of 2017, sales volumes in the second quarter of 2018 increased overall by 2%, primarily for sales of softwood pulp in Russia and softwood pulp and containerboard in other export markets, partially offset by lower sales of hardwood pulp in China. Average sales prices were higher for softwood pulp, hardwood pulp and containerboard in all markets. Input costs, primarily for wood, fuel and labor were higher. Distribution costs were higher. An after-tax foreign exchange loss of $18 million primarily on the remeasurement of U.S. dollar denominated net debt was recorded in the second quarter of 2017.

Looking forward to the third quarter of 2018, sales volumes are expected to be slightly lower. Average sales price realizations are projected to moderately increase compared with the second quarter of 2018, primarily for containerboard, partially offset by lower softwood and hardwood pulp prices. Input costs are expected to be relatively flat. Planned maintenance mill outages are scheduled at the Bratsk, Ust Ilmsk and Koryazhma mills.

Equity Earnings – GPI

International Paper recorded equity earnings of $15 million on its 20.5% ownership position in GPI in the second quarter of 2018 compared with $2 million in the first quarter of 2018.

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LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled $1.5 billion for the first six months of 2018, compared with $1.3 billion for the comparable 2017 six-month period. Cash used for working capital components totaled $213 million for the first six months of 2018 compared to $648 million for the comparable 2017 six-month period.

Investments in capital projects totaled $929 million in the first six months of 2018 compared to $664 million in the first six months of 2017. Full-year 2018 capital spending is currently expected to be approximately $1.5 billion, or about 111% of depreciation and amortization expense for our current businesses.

Financing activities for the first six months of 2018 included a $338 million net increase in debt versus a $116 million net decrease in debt during the comparable 2017 six-month period.

At June 30, 2018, contractual obligations for future payments of debt maturities by calendar year were as follows: $582 million in 2018; $128 million in 2019; $87 million in 2020; $445 million in 2021; $952 million in 2022; $279 million in 2023; and $9.0 billion thereafter.

Maintaining an investment-grade credit rating is an important element of International Paper’s financing strategy. At June 30, 2018, the Company held long-term credit ratings of BBB (stable outlook) and Baa2 (stable outlook) by S&P and Moody’s, respectively. In addition, the Company held short-term credit ratings of A2 and P2 by S&P and Moody's, respectively, for borrowings during the current quarter under the Company's commercial paper program.

At June 30, 2018, International Paper’s credit agreements totaled $2.1 billion, which management believes are adequate to cover expected operating cash flow variability during the current economic cycle. The credit agreements generally provide for interest rates at a floating rate index plus a pre-determined margin dependent upon International Paper’s credit rating. The liquidity facilities include a $1.5 billion contractually committed bank credit agreement that expires in December 2021 and has a facility fee of 0.15% per annum payable quarterly. The liquidity facilities also include up to $600 million of uncommitted financings based on eligible receivable balances under a receivables securitization program that expires in December 2018. At June 30, 2018, there were no borrowings outstanding under either the bank facility or receivables securitization program.

In June 2016, International Paper entered into a commercial paper program with a borrowing capacity of $750 million. In June 2018, the borrowing capacity of the commercial paper program was increased to $1.0 billion. Under the terms of the program, individual maturities on borrowings may vary, but not exceed one year from the date of issue. Interest bearing notes may be issued either as fixed notes or floating rate notes. As of June 30, 2018, the Company had $545 million of borrowings outstanding under this program at a weighted average interest rate of 2.34%.

During the first six months of 2018, International Paper used 1.7 million shares of treasury stock for various incentive plans. International Paper also acquired 5.8 million shares of treasury stock, including restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled $331 million. In September 2013, the Company announced a share repurchase program to acquire up to $1.5 billion of the Company's common stock in open market repurchase transactions. In addition, in July 2014, the Company announced that it would acquire up to $1.5 billion of additional shares of the Company's common stock to supplement the $1.5 billion share repurchase program authorized in September 2013 and would continue to repurchase such shares in open market repurchase transactions. Under this $3.0 billion share repurchase program, the Company has repurchased 49.8 million shares at an average price of $47.55, for a total of approximately $2.4 billion, as of June 30, 2018.

During the first six months of 2017, International Paper used approximately 2.5 million shares of treasury stock for various incentive plans. International Paper also acquired 0.9 million shares of treasury stock for the payment of restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled $46 million. Cash dividend payments related to common stock totaled $393 million and $382 million for the first six months of 2018 and 2017, respectively. Dividends were $0.9500 per share and $0.9250 per share for the first six months in 2018 and 2017, respectively.

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

Acquisitions

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

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Ilim Holding S.A. Shareholders' Agreement

In October 2007, in connection with the formation of the Ilim Holding S.A. joint venture, International Paper entered into a shareholder's agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time, either the Company or its partners may commence procedures specified under the deadlock agreement. If these or any other deadlock procedures under the shareholder's agreement are commenced, although it is not obligated to do so, the Company may in certain situations choose to purchase its partners' 50% interest in Ilim Holding S.A. Any such transaction would be subject to review and approval by Russian and other relevant anti-trust authorities. Based on the provisions of the agreement, the Company estimates that the current purchase price for its partners' 50% interests would be approximately $2.1 billion, which could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company's option. The purchase by the Company of its partners' 50% interest in Ilim Holding S.A. would result in the consolidation of Ilim Holding S.A.'s financial position and results of operations in all subsequent periods. The parties have informed each other that they have no current intention to commence procedures specified under the deadlock provisions of the shareholder's agreement.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

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

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

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

FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q that are not historical in nature may be considered "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words, "will," "may," "should," "continue," "anticipate," "believe," "expect," "plan," "ap "project," "estimate," "intend," and words of a similar nature. These statements are not guarantees of future performance and reflect management's current views with respect to future events, which are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include but are not limited to: (i) the level of our indebtedness and changes in interest rates; (ii) industry conditions, including but not limited to changes in the cost or availability of raw materials, energy and transportation costs, competition we face, cyclicality and changes in consumer preferences, demand and pricing for our products; (iii) global economic conditions and political changes, including but not limited to trade protection measures, the impairment of financial institutions, changes in currency exchange rates, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation, changes in tax laws and pension and health care costs; (iv) unanticipated expenditures related to the cost of compliance with existing and new environmental and other governmental regulations and to actual or potential litigation; (v) whether we experience a material disruption at one of our manufacturing facilities; (vi) risks inherent in conducting business through joint ventures; (vii) our ability to achieve the benefits we expect from strategic acquisitions, divestitures and restructurings, and (viii) other factors you can find in our press releases and filings with the Securities and Exchange Commission, including the risk factors identified in Item 1A of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as updated in Item 1A of Part II of this Quarterly Report on Form 10-Q ("Risk

Factors"). We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures:

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

Changes in Internal Control over Financial Reporting:

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
A discussion of material developments in the Company's litigation matters occurring in the period covered by this report is found in Note 14 of the Condensed Notes to the Consolidated Financial Statements in this Form 10-Q.
ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (Part I, Item 1A).
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in billions)
April 1, 2018 - April 30, 2018	239	$45.91	—	$0.933
May 1, 2018 - May 31, 2018	915	52.19	—	0.933
June 1, 2018 - June 30, 2018	5,233,946	57.34	5,233,454	0.633
Total	5,235,100			

(a) 1,646 shares were acquired from employees from share withholdings to pay income taxes under the Company's restricted stock programs. The remainder were purchased under a share repurchase program that was approved by our Board of Directors and announced on July 8, 2014. Through this program, which does not have an expiration date, we were authorized to purchase, in open market transactions (including block trades), privately negotiated transactions or otherwise, up to $1.5 billion of shares of our common stock.

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ITEM 6. EXHIBITS

11	Statement of Computation of Per Share Earnings.
12	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Extension Presentation Linkbase.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL PAPER COMPANY
(Registrant)

August 3, 2018 By/s/ Tim S. Nicholls
Tim S. Nicholls
Senior Vice President and Chief
Financial Officer

August 3, 2018 By/s/ Vincent P. Bonnot
Vincent P. Bonnot
Vice President – Finance and Controller

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