

INTERNATIONAL PAPER CO /NEW/  
Form 10-K  
February 20, 2019  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
for the fiscal year ended December 31, 2018

or

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

Commission File No. 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York

13-0872805

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6400 Poplar Avenue

Memphis, Tennessee

(Address of principal executive offices)

38197

(Zip Code)

Registrant's telephone number, including area code: (901) 419-9000

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

Title of each class	Name of each exchange on which registered
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Common Stock, \$1 per share par value	New York Stock Exchange
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Securities Registered Pursuant to Section 12(g) of the Act: None

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

Yes  No

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

Yes  No

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

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

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

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

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

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

The aggregate market value of the Company's outstanding common stock held by non-affiliates of the registrant, computed by reference to the closing price as reported on the New York Stock Exchange, as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2018) was approximately \$21,249,006,136.

The number of shares outstanding of the Company's common stock as of February 15, 2019 was 400,236,119.

Documents incorporated by reference:

Portions of the registrant's proxy statement filed within 120 days of the close of the registrant's fiscal year in connection with registrant's 2019 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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PART I.

ITEM 1. BUSINESS

GENERAL

International Paper Company (the Company or International Paper, which may also be referred to as we or us) is a global producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Latin America, Europe, North Africa, India and Russia. We are a New York corporation, incorporated in 1941 as the successor to the New York corporation of the same name organized in 1898. You can learn more about us by visiting our website at [www.internationalpaper.com](http://www.internationalpaper.com).

In the United States, at December 31, 2018, the Company operated 27 pulp, paper and packaging mills, 166 converting and packaging plants, 16 recycling plants and three bag facilities. Production facilities at December 31, 2018 in Canada, Europe, India, North Africa, and Latin America included 16 pulp, paper and packaging mills, 43 converting and packaging plants, and two recycling plants. We operate a printing and packaging products distribution business principally through nine branches in Asia. At December 31, 2018, we owned or managed approximately 329,000 acres of forestland in Brazil and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to industry capacity and general economic conditions.

For management and financial reporting purposes, our businesses are separated into three segments: Industrial Packaging; Global Cellulose Fibers; and Printing Papers.

A description of these business segments can be found on pages 23 and 24 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company's 50% equity interest in Ilim S.A. (Ilim) is also a separate reportable industry segment.

From 2014 through 2018, International Paper's capital expenditures approximated \$7.2 billion, excluding mergers and acquisitions. These expenditures reflect our continuing efforts to use our capital strategically to improve product quality and environmental performance, as well as lower costs and maintain reliability of operations. Capital spending in 2018 was approximately \$1.6 billion and is expected to be approximately \$1.4 billion in 2019. You can find more information about capital expenditures on page 28 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Discussions of acquisitions can be found on page 29 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You can find discussions of restructuring charges and other special items on pages 22 and 23 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

COMPETITION AND COSTS

The pulp, paper and packaging sectors are large and fragmented, and the areas into which the Company sells its principal products are very competitive. Our products compete with similar products produced by other forest products companies. We also compete, in some instances, with companies in other industries and against substitutes

for wood-fiber products.

Many factors influence the Company's competitive position, including price, cost, product quality and services. You can find more information about the impact of these factors on operating profits on pages 17 through 28 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. You can find information about the Company's manufacturing capacities on page A-4 of Appendix II.

#### MARKETING AND DISTRIBUTION

The Company sells products directly to end users and converters, as well as through agents, resellers and paper distributors.

#### DESCRIPTION OF PRINCIPAL PRODUCTS

The Company's principal products are described on pages 23 and 24 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Sales volumes of major products for 2018, 2017 and 2016 were as follows:

Sales Volumes by Product (a)

In thousands of short tons (except as noted)	2018	2017	2016
Industrial Packaging			
Corrugated Packaging (b)	10,624	10,413	10,392
Containerboard	3,229	3,294	3,091
Recycling	2,282	2,257	2,450
Saturated Kraft	196	181	182
Gypsum/Release Kraft	227	229	200
Bleached Kraft	31	27	24
EMEA Packaging (b) (c)	1,476	1,518	1,477
Asian Box (b) (d)	—	—	208
Brazilian Packaging (c)	351	357	371
European Coated Paperboard	390	398	393
Industrial Packaging	18,806	18,674	18,788
Global Cellulose Fibers (in thousands of metric tons) (e)	3,573	3,708	1,870
Printing Papers			
U.S. Uncoated Papers	1,886	1,915	1,872
European and Russian Uncoated Papers	1,440	1,483	1,536
Brazilian Uncoated Papers	1,125	1,167	1,114
Indian Uncoated Papers	263	253	241
Printing Papers	4,714	4,818	4,763

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

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

(c) Excludes newsprint sales volumes at the Madrid, Spain mill through Q3 2017.

(d) Includes sales volumes through the date of sale on June 30, 2016.

(e) Includes North American, European and Brazilian volumes and internal sales to mills. Includes sales volumes from the pulp business acquired beginning December 1, 2016.

RESEARCH AND DEVELOPMENT

The Company operates its primary research and development center in Loveland, Ohio, as well as several other product development facilities, including the Global Cellulose Fibers technology center in Federal Way, Washington. We direct research and development activities to short-term, long-term and technical assistance needs of customers and operating divisions, and to process, equipment and product innovations. Activities include product development within the operating divisions; studies on innovation and improvement of pulping, bleaching, chemical recovery, paper making, converting and coating processes; packaging design and materials development; mechanical packaging systems, environmentally sensitive printing inks and reduction of environmental discharges; re-use of raw materials in manufacturing processes; recycling of consumer and packaging paper products; energy conservation; applications of computer controls to

manufacturing operations; innovations and improvement of products; and development of various new products. Our development efforts specifically address product safety, as well as the minimization of solid waste. The cost to the Company of its research and development operations was \$30 million in 2018, \$28 million in 2017, and \$20 million in



2016.

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

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ENVIRONMENTAL PROTECTION

International Paper is subject to extensive federal and state environmental regulation, as well as similar regulations internationally. Our continuing objectives include: (1) controlling emissions and discharges from our facilities into the air, water and groundwater to avoid adverse impacts on the environment, and (2) maintaining compliance with applicable laws and regulations. The Company spent \$47 million in 2018 for capital projects to control environmental releases into the air and water, and to assure environmentally sound management and disposal of waste. We expect to spend \$70 million in 2019 for environmental capital projects. Capital expenditures for 2020 environmental projects are anticipated to be approximately \$70 million. Capital expenditures for 2021 environmental projects are estimated to be \$95 million.

The Company has completed capital projects to meet the U.S. Environmental Protection Agency's (EPA) Boiler MACT (maximum achievable control technology) regulations that require owners of specified boilers to meet revised air emissions standards for certain substances. Since 2016, lawsuits challenging all or portions of the Boiler MACT regulations have resulted in the U.S. Court of Appeals for the D.C. Circuit remanding certain portions of the Boiler MACT regulations to the EPA for reconsideration of certain standards in the regulations. We have not identified any additional Boiler MACT capital project expenditures that might result from the outcome of the remands to the EPA.

Amendments lowering National Ambient Air Quality Standards (NAAQS) for sulfur dioxide (SO<sub>2</sub>), nitrogen dioxide (NO<sub>2</sub>), fine particulate (PM<sub>2.5</sub>), and ozone have been finalized by the EPA in recent years but to date have not had a material impact on the Company.

CLIMATE CHANGE

In an effort to mitigate the potential climate change impacts from human activities, various international, national and sub-national (regional, state and local) governmental actions have been or may be undertaken. Presently, these efforts have not materially impacted International Paper, but such efforts may have a material impact on the Company in the future.

International Efforts

A successor program to the 1997 Kyoto Protocol, the Paris Agreement, went into effect in November 2016 and continued international efforts and voluntary commitments toward reducing the emissions of greenhouse gases (GHGs). Consistent with this objective, participating countries aim to balance GHG

emissions generation and removal in the second half of this century or, in effect, achieve net-zero global GHG emissions.

As part of the Paris Agreement, many countries, including the U.S. and EU member states, established non-binding emissions reduction targets. The U.S. non-binding commitment is for GHG emissions to be 7% below 2005 GHG emissions levels by 2020 and 26% to 28% below by 2025. Other countries in which we do business made similar non-binding commitments. On August 4, 2017, the U.S. filed official notice to withdraw from the Paris Agreement. Notwithstanding the notice of withdrawal by the U.S., the Company's voluntary GHG reductions, which are set out in our annual Global Citizenship report, remain roughly in line with the percentages of the U.S. prior target reductions. It is not clear at this time what, if any, further reductions by the Company might be required by the countries in which we operate. Due to this uncertainty, it is not possible at this time to estimate the potential impacts of these agreements on the Company.

To assist member countries in meeting obligations under the Kyoto Protocol, the EU established and continues to operate an Emissions Trading System (EU ETS). Currently, we have two sites directly subject to regulation under

Phase III of the EU ETS, one in Poland and one in France. Other sites that we operate in the EU experience indirect impacts of the EU ETS through purchased power pricing. Neither the direct nor indirect impacts of the EU ETS have been material to the Company, but they could be material to the Company in the future depending on how the Paris Agreement's non-binding commitments or allocation of and market prices for GHG credits under existing rules evolve over the coming years.

U.S. Efforts, including State, Regional and Local Measures

In the U.S., the 1997 Kyoto Protocol was not ratified and Congress has not passed GHG legislation. The EPA manages regulations to: (i) control GHGs from mobile sources by adopting transportation fuel efficiency standards; (ii) control GHG emissions from new Electric Generating Units (EGUs); (iii) require reporting of GHGs from sources of GHGs greater than 25,000 tons per year; (iv) in 2015, require states to develop plans to reduce GHGs from utility EGUs and (v) in 2016 EPA took the first steps in the process of developing emissions standards for existing sources in the oil and gas sector.

A few U.S. states have enacted or are considering legal measures to require the reduction of emissions of GHGs by companies and public utilities, primarily through the development of GHG emission inventories or regional GHG cap-and-trade programs. California has already enacted such a program and similar actions are being

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considered by Washington. The Company does not have any sites currently subject to California's GHG regulatory plan. There may be indirect impacts from changing input costs (such as electricity) at some of our California converting operations but these have yet to manifest themselves in material impacts. Although we are monitoring proposed programs in other states, it is unclear what impacts, if any, state-level GHG rules will have on the Company's operations.

## Summary

Regulation of GHGs continues to evolve in various countries in which we do business. While it is likely that there will be increased governmental action regarding GHGs and climate change in the future, it is unclear when such actions will occur and at this time it is not reasonably possible to estimate Company costs of compliance with rules that have not yet been adopted or implemented and may not be adopted or implemented in the future. In addition to possible direct impacts, future legislation and regulation could have indirect impacts on International Paper, such as higher prices for transportation, energy and other inputs, as well as more protracted air permitting processes, causing delays and higher costs to implement capital projects. International Paper has controls and procedures in place to stay informed about developments concerning possible climate change legislation and regulation in the U.S. and in other countries where we operate. We regularly assess whether such legislation or regulation may have a material effect on the Company, its operations or financial condition, and whether we have any related disclosure obligations.

International Paper plays a significant role in responding to the climate change challenge. Our entire business depends upon the sustainability of forests. We transform renewable resources into recyclable products that people depend on every day. This cycle begins with sourcing renewable fiber from responsibly managed forests, and at the end of use our products are recycled into new products at a higher rate than any other base material. We will continue to lead the world in responsible forest stewardship to ensure healthy and productive forest ecosystems for generations to come. Our efforts to advance sustainable forest management and restore forest landscapes are an important lever for mitigating climate change through carbon storage in forests. Furthermore, we use biomass and manufacturing residuals (rather than fossil fuels) to generate a substantial majority of the manufacturing energy at our mills.

Additional information regarding climate change and International Paper is available in our 2017 Global Citizenship report found on our website at [www.internationalpaper.com](http://www.internationalpaper.com), though this information is not incorporated by reference into this Form 10-K and

should not be considered part of this or any other report that we file with or furnish to the SEC.

## EMPLOYEES

As of December 31, 2018, we have approximately 53,000 employees, nearly 33,000 of whom are located in the United States. Of our U.S. employees, approximately 23,000 are hourly, with unions representing approximately 14,000 employees. Approximately 11,000 of this number are represented by the United Steelworkers union (USW).

International Paper, the USW, and several other unions have entered into two master agreements covering various mills and converting facilities. These master agreements cover several specific items, including wages, select benefit programs, successorship, employment security, and health and safety. Individual facilities continue to have local agreements for other subjects not covered by the master agreements. If local facility agreements are not successfully negotiated at the time of expiration, under the terms of the master agreements the local contracts will automatically renew with the same terms in effect. The master agreements cover the majority of our union represented mills and converting facilities. In addition, International Paper is party to a master agreement with District Council 2, International Brotherhood of Teamsters, covering additional converting facilities.

## EXECUTIVE OFFICERS OF THE REGISTRANT

Mark S. Sutton, 57, chairman (since January 1, 2015) & chief executive officer (since November 1, 2014). Mr. Sutton previously served as president & chief operating officer from June 1, 2014 to October 31, 2014, senior vice president - industrial packaging from November 2011 to May 31, 2014, senior vice president - printing and communications papers of the Americas from 2010 until 2011, senior vice president - supply chain from 2008 to 2009, vice president - supply chain from 2007 until 2008, and vice president - strategic planning from 2005 until 2007. Mr. Sutton joined International Paper in 1984. Mr. Sutton serves on the board of directors of The Kroger Company. He is a member of The Business Council and the Business Roundtable and serves on the American Forest & Paper Association board of directors and the international advisory board of the Moscow School of Management - Skolkovo. He was appointed chairman of the U.S. Russian Business Council and was also appointed to the U.S. Section of the U.S.-Brazil CEO Forum. He also serves on the board of directors of Memphis Tomorrow and board of governors for New Memphis Institute. Mr. Sutton has been a director since June 1, 2014.

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W. Michael Amick, Jr., 55, senior vice president - paper the Americas & India since January 1, 2017. Mr. Amick previously served as senior vice president - North American papers & consumer packaging from July 2016 until December 2016, senior vice president - North American papers, pulp & consumer packaging from November 2014 until June 2016, vice president - president, IP India, from August 2012 to October 2014, and vice president and general manager for the coated paperboard business from 2010 to 2012. Mr. Amick joined International Paper in 1990.

Tommy S. Joseph, 59, senior vice president - manufacturing, technology, EH&S and global sourcing since January 2010. Mr. Joseph previously served as senior vice president - manufacturing, technology, EH&S from February 2009 until December 2009, and vice president - technology from 2005 until February 2009. Mr. Joseph is a director of Ilim in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Mr. Joseph joined International Paper in 1983.

Timothy S. Nicholls, 57, senior vice president & chief financial officer since June 2018. Mr. Nicholls previously served as senior vice president - industrial packaging the Americas from January 2017 through June 2018, senior vice president - industrial packaging from November 2014 through December 2016, senior vice president - printing and communications papers of the Americas from November 2011 through October 2014, senior vice president and chief financial officer from 2007 until 2011, vice president and executive project leader of IP Europe during 2007, and vice president and chief financial officer - IP Europe from 2005 until 2007. Mr. Nicholls joined International Paper in 1991.

Thomas J. Plath, 55, senior vice president - human resources and global citizenship since March 1, 2017. Mr. Plath previously served as vice president - human resources, global businesses from November 2014 through February 2017, and vice president - HR manufacturing, technology, EH&S and global supply chain from April 2013 to November 2014. Mr. Plath joined International Paper in 1991.

Jean-Michel Ribieras, 56, senior vice president - industrial packaging the Americas since June 2018. Mr. Ribieras previously served as senior vice president - global cellulose fibers from July 2016 through June 2018, senior vice president - president, IP Europe, Middle East, Africa & Russia from 2013 until June 2016, and president - IP Latin America from 2009 until 2013. Mr. Ribieras joined International Paper in 1993.

Sharon R. Ryan, 59, senior vice president, general counsel & corporate secretary since November 2011. Ms. Ryan previously served as vice president, acting general counsel & corporate secretary from May 2011

until November 2011, vice president from March 2011 until May 2011, associate general counsel, chief ethics and compliance officer from 2009 until 2011, and associate general counsel from 2006 until 2009. Ms. Ryan joined International Paper in 1988.

John V. Sims, 56, senior vice president - president, IP Europe, Middle East, Africa & Russia since July 2016. Mr. Sims previously served as vice president and general manager, European papers from March 2016 until June 2016, vice president & general manager, North American papers from 2013 until February 2016, and vice president, finance and strategy, industrial packaging, from 2009 until 2013. Mr. Sims is a director of Ilim in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Mr. Sims joined International Paper in 1994.

Catherine I. Slater, 55, senior vice president - global cellulose fibers & IP Asia since June 2018. Ms. Slater previously served as senior vice president - consumer packaging from December 2016 through December 2017. Ms. Slater joined International Paper from Weyerhaeuser Company in December 2016, effective with the completion of the acquisition of Weyerhaeuser's cellulose fibers business, which she previously led. Ms. Slater's 24-year career with Weyerhaeuser included leadership roles in manufacturing, printing papers, consumer products, wood products and the cellulose

fibers business.

Gregory T. Wanta, 53, senior vice president - North American container since November 2016. Mr. Wanta has served in a variety of roles of increasing responsibility in manufacturing and commercial leadership roles in specialty papers, coated paperboard, printing papers, foodservice and industrial packaging, including vice president, central region, Container the Americas, from January 2012 through October 2016. Mr. Wanta joined International Paper in 1991.

#### RAW MATERIALS

Raw materials essential to our businesses include wood fiber, purchased in the form of pulpwood, wood chips and old corrugated containers (OCC), and certain chemicals, including caustic soda and starch. For further information concerning fiber supply purchase agreements, see page 30.

#### FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (including the exhibits hereto) 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,”

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“continue,” “anticipate,” “believe,” “expect,” “plan,” “appear,” “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 the impairment of financial institutions, changes in currency exchange rates, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation, changes in tax laws and pension and health care costs; (iv) unanticipated expenditures related to the cost of compliance with existing and new environmental and other governmental regulations and to actual or potential litigation; (v) whether we experience a material disruption at one of our manufacturing facilities; (vi) risks inherent in conducting business through a joint venture; and (vii) our ability to achieve the benefits we expect from all acquisitions, divestitures and restructurings. These and other factors that could cause or contribute to actual results differing materially from such forward-looking statements are discussed in greater detail below in “Item 1A. Risk Factors.” We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

## ITEM 1A. RISK FACTORS

The Company faces risks in the normal course of business and through global, regional, and local events that could have an adverse impact on its reputation, operations, and financial performance. The Board of Directors exercises oversight of the Company’s enterprise risk management program, which includes strategic, operational and financial matters, as well as compliance and legal risks. The Audit and Finance Committee coordinates the risk oversight role exercised by the Board’s standing committees and management, and it receives updates on the risk management processes twice per year.

In addition to the risks and uncertainties discussed elsewhere in this Annual Report on Form 10-K (particularly in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations), or in the Company’s other filings with the Securities and Exchange Commission, the following are some important factors that could cause the Company’s

actual results to differ materially from those projected in any forward-looking statement.

### **RISKS RELATING TO INDUSTRY CONDITIONS**

**CHANGES IN THE COST OR AVAILABILITY OF RAW MATERIALS, ENERGY AND TRANSPORTATION COULD AFFECT OUR PROFITABILITY.** We rely heavily on the use of certain raw materials (principally virgin wood fiber, recycled fiber, caustic soda and starch), energy sources (principally biomass, natural gas, electricity and fuel oil) and third-party companies that transport our goods. The market price of virgin wood fiber varies based upon availability and source. The global supply and demand for recycled fiber may be affected by trade policies between countries, individual governments’ legislation and regulations, as well as changes in the global economy. In addition, the increase in demand of products manufactured, in whole or in part, from recycled fiber, on a global basis, may cause occasional significant fluctuations in recycled fiber prices. Energy prices, in particular prices for oil and natural gas, have fluctuated dramatically in the past and may continue to fluctuate in the future. The availability of labor and the market price for diesel fuel may affect our costs for third-party transportation. Our profitability has been, and will continue to be, affected by changes in the costs and availability of such raw materials, energy sources and transportation sources.

**THE INDUSTRIES IN WHICH WE OPERATE EXPERIENCE BOTH ECONOMIC CYCLICALITY AND CHANGES IN CONSUMER PREFERENCES. FLUCTUATIONS IN THE PRICES OF, AND THE DEMAND FOR, OUR PRODUCTS COULD MATERIALLY AFFECT OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS.** Substantially all of our businesses have experienced, and are likely to continue



to experience, cycles relating to industry capacity and general economic conditions. The length and magnitude of these cycles have varied over time and by product. In addition, changes in consumer preferences may increase or decrease the demand for our products. These consumer preferences affect the prices of our products. Consequently, our financial results are sensitive to changes in the pricing and demand for our products.

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

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**RISKS RELATING TO MARKET AND ECONOMIC FACTORS**

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

**CHANGES IN INTERNATIONAL CONDITIONS COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS.** Our operating results and business prospects could be substantially affected by risks related to the countries outside the United States in which we have manufacturing facilities or sell our products. Specifically, Russia, Brazil, Poland, India, and Turkey, where we have substantial manufacturing facilities, are countries that are exposed to economic and political instability in their respective regions of the world. Fluctuations in the value of local currency versus the U.S. dollar, downturns in economic activity, adverse tax consequences or rulings, nationalization or any change in social, political or labor conditions in any of these countries or regions could negatively affect our financial results. Trade protection measures in favor of local producers of competing products, including governmental subsidies, tax benefits and other measures giving local producers a competitive advantage over International Paper, may also adversely impact our operating results and business prospects in these countries. Likewise, disruption in existing trade agreements or increased trade friction between countries (e.g., the U.S. and China) could have a negative effect on our business and results of operations by restricting the free flow of goods and services across borders. In addition, our international operations are subject to regulation under U.S. law and other laws related to operations in foreign jurisdictions. For example, the Foreign Corrupt Practices Act prohibits U.S. companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. Failure to comply with domestic or foreign laws could result in various adverse consequences, including the imposition of civil or criminal sanctions and the prosecution of executives overseeing our international operations.

**THE LEVEL OF OUR INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND IMPAIR OUR ABILITY TO OPERATE OUR BUSINESS.** As of December 31, 2018, International Paper had approximately \$10.7 billion of outstanding indebtedness. The level of our indebtedness could have important consequences to our financial condition, operating results and business, including the following:

it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, product development, dividends, share repurchases, debt service requirements, acquisitions and general corporate or other purposes;

a portion of our cash flows from operations will be dedicated to payments on indebtedness and will not be available for other purposes, including operations, capital expenditures and future business opportunities;

the debt service requirements of our indebtedness could make it more difficult for us to satisfy other obligations;

our indebtedness that is subject to variable rates and, in the instance such variable rates use the London Interbank Offered Rate (LIBOR) as a benchmark, exposes us to a possible increase in debt service obligations in the event that the method for determining LIBOR changes, LIBOR is replaced by an alternative reference rate or LIBOR is phased out altogether;

it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our competitors that have less debt; and

it may increase our vulnerability to a downturn in general economic conditions or in our business, and may make us unable to carry out capital spending that is important to our growth.

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

CHANGES IN CREDIT RATINGS ISSUED BY NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS COULD ADVERSELY AFFECT OUR COST OF FINANCING AND HAVE AN ADVERSE

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**EFFECT ON THE MARKET PRICE OF OUR SECURITIES.** Maintaining an investment-grade credit rating is an important element of our financial strategy, and a downgrade of the Company's ratings below investment grade will likely eliminate our ability to access the commercial paper market, may limit our access to the capital markets, have an adverse effect on the market price of our securities, increase our cost of borrowing and require us to post collateral for derivatives in a net liability position. The Company's desire to maintain its investment grade rating may cause the Company to take certain actions designed to improve its cash flow, including sale of assets, suspension or reduction of our dividend and reductions in capital expenditures and working capital.

Under the terms of the agreements governing approximately \$1.4 billion of our debt as of December 31, 2018, the applicable interest rate on such debt may increase upon each downgrade in our credit rating below investment grade. As a result, a downgrade in our credit rating below investment grade may lead to an increase in our interest expense. There can be no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. Any such downgrade, suspension or withdrawal of our credit ratings could adversely affect our cost of borrowing, limit our access to the capital markets or result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur.

**DOWNGRADES IN THE CREDIT RATINGS OF BANKS ISSUING CERTAIN LETTERS OF CREDIT WILL INCREASE OUR COST OF MAINTAINING CERTAIN INDEBTEDNESS AND MAY RESULT IN THE ACCELERATION OF DEFERRED TAXES.** We are subject to the risk that a bank with currently issued irrevocable letters of credit supporting installment notes delivered to Temple-Inland in connection with Temple-Inland's 2007 sales of forestlands may be downgraded below a required rating. Since 2007, certain banks have fallen below the required ratings threshold and were successfully replaced, or waivers were obtained regarding their replacement. As a result of continuing uncertainty in the banking environment, a number of the letter-of-credit banks currently in place remain subject to risk of downgrade and the number of qualified replacement banks remains limited. The downgrade of one or more of these banks may subject the Company to additional costs of securing a replacement letter-of-credit bank or could result in an acceleration of payments of up to \$538 million in deferred income taxes if replacement banks cannot be obtained. The deferred taxes are currently recorded in the Company's consolidated financial statements. See Note 14, Variable Interest Entities, on pages 65 and 66, and Note

12, Income Taxes, on pages 58 through 62, in Item 8. Financial Statements and Supplementary Data for further information.

**OUR PENSION AND HEALTH CARE COSTS ARE SUBJECT TO NUMEROUS FACTORS WHICH COULD CAUSE THESE COSTS TO CHANGE.** We have defined benefit pension plans covering substantially all U.S. salaried employees hired prior to July 1, 2004 (or later for certain acquired populations, as described in Note 18, Retirement Plans, on pages 70 through 77, in Item 8. Financial Statements and Supplementary Data) and substantially all hourly and union employees regardless of hire date. The Company has frozen participation under these plans for U.S. salaried employees, including credited services and compensation on or after January 1, 2019; however, the pension freeze does not affect benefits accrued through December 31, 2018. We provide retiree health care benefits to certain former U.S. hourly employees, as well as financial assistance towards the cost of individual retiree medical coverage for certain former U.S. salaried employees. Our pension costs are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns, changes in general interest rates and changes in the number of retirees may result in increased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates and expected rates of return on plan assets could increase pension costs. **OUR PENSION PLANS ARE CURRENTLY UNDERFUNDED ON A PROJECTED BENEFIT OBLIGATION BASIS, AND OVER TIME WE MAY BE REQUIRED TO MAKE CASH PAYMENTS TO THE PLANS, REDUCING THE CASH AVAILABLE FOR OUR BUSINESS.** We record a liability associated with our pension plans equal to the excess of the benefit obligation over the fair value of plan assets. The benefit liability recorded under the provisions of Accounting Standards Codification (ASC) 715, "Compensation – Retirement Benefits," at December 31, 2018 was \$1.8 billion. The amount and timing of future contributions will depend upon a number of

factors, including the actual earnings and changes in values of plan assets and changes in interest rates.

**RISKS RELATING TO OUR OPERATIONS**

**MATERIAL DISRUPTIONS AT ONE OF OUR MANUFACTURING FACILITIES COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS.** We operate our facilities in compliance with applicable rules and regulations and take measures to minimize the risks of disruption at our facilities. A material disruption at our corporate headquarters or one of our manufacturing facilities could prevent us from meeting

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customer demand, reduce our sales and/or negatively impact our financial condition. Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

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

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

**CERTAIN OPERATIONS ARE CONDUCTED BY JOINT VENTURES THAT WE CANNOT OPERATE SOLELY FOR OUR BENEFIT.** Certain operations in Russia are carried on by a joint venture, Ilim. In joint ventures, we share ownership and management of a company with one or more parties who may or may not

have the same goals, strategies, priorities or resources as we do. In general, joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. Operating a business as a joint venture often requires additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. In joint ventures, we are required to pay more attention to our relationship with our co-owners as well as with the joint venture, and if a co-owner changes, our relationship may be adversely affected. In addition, the benefits from a successful joint venture are shared among the co-owners, so we receive only our portion of those benefits.

**WE MAY NOT ACHIEVE THE EXPECTED BENEFITS FROM ACQUISITIONS, JOINT VENTURES, DIVESTITURES, CAPITAL INVESTMENTS AND OTHER CORPORATE TRANSACTIONS.** Our strategy for long-term growth, productivity and profitability depends, in part, on our ability to accomplish prudent acquisitions, joint ventures, divestitures, capital investments and other corporate transactions and to realize the benefits we expect from such transactions, and we are subject to the risk that we may not achieve the expected benefits. Among the benefits we expect from potential as well as completed acquisitions and joint ventures are synergies, cost savings, growth opportunities or access to new markets (or a combination thereof), and in the case of divestitures, the realization of proceeds from the sale of businesses and assets to purchasers who place higher strategic value on such businesses and assets than does International Paper. In January 2018, for example, we completed a transaction transferring our North American Consumer Packaging business to Graphic Packaging in exchange for, among other things, an equity interest in the combined business of 20.5%. The success of the transaction and the value of our equity interest will depend on variables we do not control, such as the financial performance of the combined business and on the ability of the combined business to realize anticipated growth opportunities, cost savings and other synergies.

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

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

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

**WE ARE SUBJECT TO A WIDE VARIETY OF LAWS, REGULATIONS AND OTHER GOVERNMENT REQUIREMENTS THAT MAY CHANGE IN SIGNIFICANT WAYS, AND THE COST OF COMPLIANCE WITH SUCH REQUIREMENTS COULD IMPACT OUR BUSINESS AND RESULTS OF OPERATIONS.** Our operations are subject to regulation under a wide variety of U.S. federal and state and non-U.S. laws, regulations and other government requirements -- including, among others, those relating to the environment, health and safety, labor and employment, data privacy, tax, trade and health care. There can be no assurance that laws, regulations and government requirements will not be changed, applied or interpreted in ways that will require us to modify our operations and objectives or affect our returns on investments by restricting existing activities and products, subjecting them to escalating costs.

For example, we have incurred, and expect that we will continue to incur, significant capital, operating and other expenditures complying with applicable environmental laws and regulations. There can be no assurance that future remediation requirements and compliance with existing and new laws and requirements, including with global climate change laws and regulations, will not require significant expenditures, or that existing reserves for specific matters will be adequate to cover future costs. We could also incur substantial fines or sanctions, enforcement actions (including orders limiting our operations or requiring corrective measures), natural resource damages claims, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws, regulations, codes and common law. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, liability may be imposed without regard to

contribution or to whether we knew of, or caused, the release of hazardous substances.

As another example, we are subject to a number of labor and employment laws and regulations that could significantly increase our operating costs and reduce our operational flexibility. Additionally, we are subject to complex and evolving U.S. and international privacy laws and regulations, including those pertaining to the handling of personal data, such as the General Data Protection Regulation (GDPR). Government authorities around the world are considering, or are in the process of implementing, new data protection regulations. Many of these laws and regulations are subject to uncertain application, interpretation or enforcement standards that could result in claims, changes to our business practices, penalties, increased operating costs or other impacts on our businesses.

As a final example, the application of tax law is subject to interpretation and is subject to audit by taxing authorities. Additionally, administrative guidance can be incomplete or vary from legislative intent, and therefore the application of the tax law is uncertain. While we believe the positions reported by the Company comply with relevant tax laws and regulations, taxing authorities could interpret our application of certain laws and regulations differently. We are currently subject to tax audits in the U.S., Brazil, Poland, Russia and other taxing jurisdictions around the world. In some cases, we have appealed and may continue to appeal, assessments by taxing authorities in the court system. As such, tax controversy matters may result in previously unrecorded tax expenses, higher future tax expenses or the assessment of interest and penalties.



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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

FORESTLANDS

As of December 31, 2018, the Company owned or managed approximately 329,000 acres of forestlands in Brazil, and had, through licenses and forest management agreements, harvesting rights on

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government-owned forestlands in Russia. All owned lands in Brazil are independently third-party certified for sustainable forestry under the Brazilian National Forest Certification Program (CERFLOR) and the Forest Stewardship Council (FSC).

MILLS AND PLANTS

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

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

CAPITAL INVESTMENTS AND DISPOSITIONS

Given the size, scope and complexity of our business interests, we continually examine and evaluate a wide variety of business opportunities and planning alternatives, including possible acquisitions and sales or other dispositions of properties. You can find a discussion about the level of planned capital investments for 2019 on page 30, and dispositions and restructuring activities as of December 31, 2018, on pages 21 through 23 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and on page 52 and pages 54 and 55 of Item 8. Financial Statements and Supplementary Data.

ITEM 3. LEGAL PROCEEDINGS

Information concerning the Company’s legal proceedings is set forth in Note 13 Commitments and Contingent Liabilities on pages 62 through 65 of Item 8. Financial Statements and Supplementary Data.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II.

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

As of the filing of this Annual Report on Form 10-K, the Company’s common shares are traded on the New York Stock Exchange (NYSE: IP). As of February 15, 2019, there were approximately 11,316 record holders of common stock of the Company.

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

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares (or Dollar Value) of	Maximum Number (or Approximate Dollar Value) of
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			Units) Purchased as Part of Publicly Announced Programs	Shares that May Yet Be Purchased Under the Plans or Programs (in billions)
October 1, 2018 - October 31, 2018	2,225,310	\$ 44.94	2,225,188	\$ 2.33
November 1, 2018 - November 30, 2018	1,475,242	45.79	1,474,900	2.27
December 1, 2018 - December 31, 2018	725,363	45.51	712,442	2.23
Total	4,425,915			

13,385 shares were acquired from employees from share withholdings to pay income taxes under the Company's restricted stock programs. During these periods, 4,412,530 shares were purchased under our share repurchase program, which was approved by our Board of Directors and announced on July 8, 2014 and October 9, (a)2018. 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 \$3.5 billion aggregate amount of shares of our common stock. As of February 15, 2019, approximately \$2.19 billion aggregate amount of shares of our common stock remained authorized for purchase under this program.

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PERFORMANCE GRAPH

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

The following graph compares a \$100 investment in Company stock on December 31, 2013 with a \$100 investment in our Return on Invested Capital (ROIC) Peer Group and the S&P 500 also made at market close on December 31, 2013. The graph portrays total return, 2013–2018, assuming reinvestment of dividends.

Note 1. The companies included in the ROIC Peer Group are Domtar Inc., Fibria Celulose S.A., Graphic Packaging Holding Company, Klabin S.A., Metsa Board Corporation, Mondi Group, Packaging Corporation of America, Smurfit Kappa Group, Stora Enso Group, and UPM-Kymmene Corp. MeadWestvaco Corp. and Rock-Tenn Company are included in the ROIC Peer Group results through 2014 and subsequently, after the merger of those companies, WestRock was added to the Peer group beginning in 2015.

Note 2. Returns are calculated in \$USD.

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ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR FINANCIAL SUMMARY (a)

Dollar amounts in millions, except per share amounts and stock prices

**RESULTS OF OPERATIONS**

	2018	2017	2016	2015	2014
Net sales	\$23,306	\$21,743	\$19,495	\$20,675	\$21,889
Costs and expenses, excluding interest	20,989	20,323	18,180	18,988	20,548