

INTERNATIONAL PAPER CO /NEW/

Form 10-Q

August 07, 2013

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

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

For the Transition Period From to

Commission File Number 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of  
incorporation of organization)

13-0872805

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

6400 Poplar Avenue, Memphis, TN

(Address of principal executive offices)

38197

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ✓ No “

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

Large accelerated filer

✓

Accelerated filer

“

Non-accelerated filer

“

Smaller reporting company

“

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

The number of shares outstanding of the registrant's common stock, par value \$1.00 per share, as of July 31, 2013 was 445,958,910.

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## PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS  
INTERNATIONAL PAPER COMPANY

## Consolidated Statement of Operations

(Unaudited)

(In millions, except per share amounts)

|                                                                                                   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---------------------------------------------------------------------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                                                                                   | 2013                           | 2012     | 2013                         | 2012     |
| Net Sales                                                                                         | \$7,335                        | \$7,077  | \$14,425                     | \$13,732 |
| Costs and Expenses                                                                                |                                |          |                              |          |
| Cost of products sold                                                                             | 5,414                          | 5,270    | 10,634                       | 10,254   |
| Selling and administrative expenses                                                               | 515                            | 474      | 1,082                        | 987      |
| Depreciation, amortization and cost of timber harvested                                           | 396                            | 366      | 775                          | 728      |
| Distribution expenses                                                                             | 449                            | 448      | 871                          | 795      |
| Taxes other than payroll and income taxes                                                         | 47                             | 44       | 96                           | 85       |
| Restructuring and other charges                                                                   | (4                             | ) 21     | 55                           | 55       |
| Net (gains) losses on sales and impairments of businesses                                         | —                              | 78       | —                            | 71       |
| Net bargain purchase gain on acquisition of business                                              | (13                            | ) —      | (13                          | ) —      |
| Interest expense, net                                                                             | 168                            | 172      | 332                          | 340      |
| Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings                | 363                            | 204      | 593                          | 417      |
| Income tax provision (benefit)                                                                    | 94                             | 57       | 25                           | 127      |
| Equity earnings (losses), net of taxes                                                            | (36                            | ) (26    | ) (46                        | ) 18     |
| Earnings (Loss) From Continuing Operations                                                        | 233                            | 121      | 522                          | 308      |
| Discontinued operations, net of taxes                                                             | 24                             | 16       | 50                           | 21       |
| Net Earnings (Loss)                                                                               | 257                            | 137      | 572                          | 329      |
| Less: Net earnings (loss) attributable to noncontrolling interests                                | (2                             | ) 3      | (5                           | ) 7      |
| Net Earnings (Loss) Attributable to International Paper Company                                   | \$259                          | \$134    | \$577                        | \$322    |
| Basic Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders   |                                |          |                              |          |
| Earnings (loss) from continuing operations                                                        | \$0.53                         | \$0.27   | \$1.19                       | \$0.69   |
| Discontinued operations, net of taxes                                                             | 0.05                           | 0.04     | 0.11                         | 0.05     |
| Net earnings (loss)                                                                               | \$0.58                         | \$0.31   | \$1.30                       | \$0.74   |
| Diluted Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders |                                |          |                              |          |
| Earnings (loss) from continuing operations                                                        | \$0.52                         | \$0.27   | \$1.18                       | \$0.68   |
| Discontinued operations, net of taxes                                                             | 0.05                           | 0.04     | 0.11                         | 0.05     |
| Net earnings (loss)                                                                               | \$0.57                         | \$0.31   | \$1.29                       | \$0.73   |
| Average Shares of Common Stock Outstanding – assuming dilution                                    | 448.5                          | 438.2    | 447.9                        | 439.3    |
| Cash Dividends Per Common Share                                                                   | \$0.3000                       | \$0.2625 | \$0.6000                     | \$0.5250 |
| Amounts Attributable to International Paper Company Common Shareholders                           |                                |          |                              |          |
| Earnings (loss) from continuing operations                                                        | \$235                          | \$118    | \$527                        | \$301    |
| Discontinued operations, net of taxes                                                             | 24                             | 16       | 50                           | 21       |

|                     |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| Net earnings (loss) | \$259 | \$134 | \$577 | \$322 |
|---------------------|-------|-------|-------|-------|

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

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## INTERNATIONAL PAPER COMPANY

## Consolidated Statement of Comprehensive Income

(Unaudited)

(In millions)

|                                                                                | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |        |
|--------------------------------------------------------------------------------|--------------------------------|----------|------------------------------|--------|
|                                                                                | 2013                           | 2012     | 2013                         | 2012   |
| Net Earnings (Loss)                                                            | \$257                          | \$137    | \$572                        | \$329  |
| Other Comprehensive Income (Loss), Net of Tax:                                 |                                |          |                              |        |
| Amortization of pension and post-retirement prior service costs and net loss:  |                                |          |                              |        |
| U.S. plans                                                                     | 76                             | 49       | 154                          | 98     |
| Pension and postretirement liability adjustments:                              |                                |          |                              |        |
| U.S. plans                                                                     | —                              | —        | —                            | 24     |
| Change in cumulative foreign currency translation adjustment                   | (337                           | ) (474   | ) (346                       | ) (275 |
| Net gains/losses on cash flow hedging derivatives:                             |                                |          |                              |        |
| Net gains (losses) arising during the period                                   | (15                            | ) (21    | ) (10                        | ) 6    |
| Reclassification adjustment for (gains) losses included in net earnings (loss) | (12                            | ) 9      | (9                           | ) 13   |
| Total Other Comprehensive Income (Loss), Net of Tax                            | (288                           | ) (437   | ) (211                       | ) (134 |
| Comprehensive Income (Loss)                                                    | (31                            | ) (300   | ) 361                        | 195    |
| Net (earnings) loss attributable to noncontrolling interests                   | 2                              | (3       | ) 5                          | (7     |
| Other comprehensive (income) loss attributable to noncontrolling interests     | 14                             | 15       | 15                           | 15     |
| Comprehensive Income (Loss) Attributable to International Paper Company        | \$(15                          | ) \$(288 | ) \$381                      | \$203  |

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

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## INTERNATIONAL PAPER COMPANY

## Consolidated Balance Sheet

(In millions)

|                                                                                           | June 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|-------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| Assets                                                                                    |                                 |                      |
| Current Assets                                                                            |                                 |                      |
| Cash and temporary investments                                                            | \$ 1,205                        | \$ 1,302             |
| Accounts and notes receivable, net                                                        | 3,946                           | 3,562                |
| Inventories                                                                               | 2,745                           | 2,730                |
| Deferred income tax assets                                                                | 322                             | 323                  |
| Assets of businesses held for sale                                                        | 774                             | 759                  |
| Other current assets                                                                      | 276                             | 229                  |
| Total Current Assets                                                                      | 9,268                           | 8,905                |
| Plants, Properties and Equipment, net                                                     | 13,838                          | 13,949               |
| Forestlands                                                                               | 578                             | 622                  |
| Investments                                                                               | 730                             | 887                  |
| Financial Assets of Special Purpose Entities (Note 13)                                    | 2,118                           | 2,108                |
| Goodwill                                                                                  | 4,437                           | 4,315                |
| Deferred Charges and Other Assets                                                         | 1,576                           | 1,367                |
| Total Assets                                                                              | \$32,545                        | \$32,153             |
| Liabilities and Equity                                                                    |                                 |                      |
| Current Liabilities                                                                       |                                 |                      |
| Notes payable and current maturities of long-term debt                                    | \$ 1,068                        | \$ 444               |
| Accounts payable                                                                          | 2,926                           | 2,775                |
| Accrued payroll and benefits                                                              | 472                             | 508                  |
| Liabilities of businesses held for sale                                                   | 54                              | 44                   |
| Other accrued liabilities                                                                 | 1,157                           | 1,227                |
| Total Current Liabilities                                                                 | 5,677                           | 4,998                |
| Long-Term Debt                                                                            | 9,057                           | 9,696                |
| Nonrecourse Financial Liabilities of Special Purpose Entities (Note 13)                   | 2,040                           | 2,036                |
| Deferred Income Taxes                                                                     | 3,137                           | 3,026                |
| Pension Benefit Obligation                                                                | 4,089                           | 4,112                |
| Postretirement and Postemployment Benefit Obligation                                      | 453                             | 473                  |
| Other Liabilities                                                                         | 1,067                           | 1,176                |
| Equity                                                                                    |                                 |                      |
| Common stock, \$1 par value, 2013 – 445.9 shares and 2012 – 439.9 shares                  | 446                             | 440                  |
| Paid-in capital                                                                           | 6,362                           | 6,042                |
| Retained earnings                                                                         | 3,967                           | 3,662                |
| Accumulated other comprehensive loss                                                      | (4,036)                         | (3,840)              |
|                                                                                           | 6,739                           | 6,304                |
| Less: Common stock held in treasury, at cost, 2013 – 0.696 shares and 2012 – 0.013 shares | 23                              | —                    |
| Total Shareholders' Equity                                                                | 6,707                           | 6,304                |
| Noncontrolling interests                                                                  | 318                             | 332                  |
| Total Equity                                                                              | 7,025                           | 6,636                |
| Total Liabilities and Equity                                                              | \$32,545                        | \$32,153             |

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



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## INTERNATIONAL PAPER COMPANY

## Consolidated Statement of Cash Flows

(Unaudited)

(In millions)

|                                                                                                       | Six Months Ended<br>June 30, |         |
|-------------------------------------------------------------------------------------------------------|------------------------------|---------|
|                                                                                                       | 2013                         | 2012    |
| Operating Activities                                                                                  |                              |         |
| Net earnings (loss)                                                                                   | \$572                        | \$329   |
| Discontinued operations, net of taxes                                                                 | (50)                         | (21)    |
| Earnings (loss) from continuing operations, including portion attributable to noncontrolling interest | 522                          | 308     |
| Depreciation, amortization and cost of timber harvested                                               | 775                          | 728     |
| Deferred income tax provision, net                                                                    | 36                           | 110     |
| Restructuring and other charges                                                                       | 55                           | 55      |
| Pension plan contribution                                                                             | (31)                         | (44)    |
| Net (gains) losses on sales and impairments of businesses                                             | —                            | 71      |
| Net bargain purchase gain on acquisition of business                                                  | (13)                         | —       |
| Equity (earnings) losses, net                                                                         | 46                           | (18)    |
| Periodic pension expense, net                                                                         | 279                          | 170     |
| Other, net                                                                                            | (36)                         | (16)    |
| Changes in current assets and liabilities                                                             |                              |         |
| Accounts and notes receivable                                                                         | (334)                        | 276     |
| Inventories                                                                                           | (32)                         | 33      |
| Accounts payable and accrued liabilities                                                              | 78                           | (243)   |
| Interest payable                                                                                      | (17)                         | 20      |
| Other                                                                                                 | (89)                         | (39)    |
| Cash Provided By (Used For) Operations – Continuing Operations                                        | 1,239                        | 1,411   |
| Cash Provided By (Used For) Operations – Discontinued Operations                                      | 40                           | (36)    |
| Cash Provided By (Used For) Operations                                                                | 1,279                        | 1,375   |
| Investment Activities                                                                                 |                              |         |
| Invested in capital projects                                                                          | (488)                        | (705)   |
| Acquisitions, net of cash acquired                                                                    | (501)                        | (3,734) |
| Proceeds from divestitures                                                                            | —                            | 5       |
| Other                                                                                                 | (61)                         | (93)    |
| Cash Provided By (Used For) Investment Activities – Continuing Operations                             | (1,050)                      | (4,527) |
| Cash Provided By (Used For) Investment Activities – Discontinued Operations                           | (3)                          | (53)    |
| Cash Provided By (Used For) Investment Activities                                                     | (1,053)                      | (4,580) |
| Financing Activities                                                                                  |                              |         |
| Repurchases of common stock and payments of restricted stock tax withholding                          | (51)                         | (35)    |
| Issuance of common stock                                                                              | 243                          | 21      |
| Issuance of debt                                                                                      | 168                          | 1,919   |
| Reduction of debt                                                                                     | (160)                        | (1,135) |
| Change in book overdrafts                                                                             | (79)                         | (46)    |
| Dividends paid                                                                                        | (266)                        | (229)   |
| Redemption of securities                                                                              | (150)                        | —       |
| Other                                                                                                 | (12)                         | (37)    |
| Cash Provided By (Used For) Financing Activities                                                      | (307)                        | 458     |

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|                                          |         |          |   |
|------------------------------------------|---------|----------|---|
| Effect of Exchange Rate Changes on Cash  | (16     | ) (19    | ) |
| Change in Cash and Temporary Investments | (97     | ) (2,766 | ) |
| Cash and Temporary Investments           |         |          |   |
| Beginning of period                      | 1,302   | 3,994    |   |
| End of period                            | \$1,205 | \$1,228  |   |

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

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments that are necessary for the fair presentation of International Paper Company's (International Paper's, the Company's or our) financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed herein, such adjustments are of a normal, recurring nature. Results for the first six months of the year may not necessarily be indicative of full year results. It is suggested that these consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 which have previously been filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING DEVELOPMENTS

Disclosures About Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities", which amends ASC 210, "Balance Sheet". This ASU requires entities to disclose gross and net information about both instruments and transactions eligible for offset in the statement of financial position and those subject to an agreement similar to a master netting arrangement. This would include derivatives and other financial securities arrangements. This guidance was effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013 and was required be applied retrospectively. The application of the requirements of this guidance did not have a material effect on the consolidated financial statements.

Intangibles – Goodwill and Other

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment," which amends ASC 350, "Intangibles - Goodwill and Other". This ASU gives an entity the option to first assess qualitative factors if it is more likely than not that the fair value of indefinite-lived intangible assets are less than their carrying amount. If that assessment indicates no impairment, the quantitative impairment test is not required. This amendment was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of the provisions of this guidance did not have a material effect on the Company's consolidated financial statements.

Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted the provisions of this guidance in the first quarter of 2013.

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## NOTE 3 - EQUITY

A summary of the changes in equity for the six-month periods ended June 30, 2013 and 2012 is provided below:

| In millions, except per share amounts                                            | Six Months Ended<br>June 30,<br>2013                       |                             |                 | 2012                                                       |                             |                 |
|----------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------|-----------------|------------------------------------------------------------|-----------------------------|-----------------|
|                                                                                  | Total<br>International<br>Paper<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity | Total<br>International<br>Paper<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
| Balance, January 1                                                               | \$6,304                                                    | \$ 332                      | \$6,636         | \$6,645                                                    | \$ 340                      | \$6,985         |
| Issuance of stock for various plans, net                                         | 345                                                        | —                           | 345             | 99                                                         | —                           | 99              |
| Repurchase of stock                                                              | (51                                                        | ) —                         | (51             | ) (35                                                      | ) —                         | (35             |
| Common stock dividends (\$0.600 per share in 2013 and \$0.525 per share in 2012) | (272                                                       | ) —                         | (272            | ) (237                                                     | ) —                         | (237            |
| Dividends paid to noncontrolling interests by subsidiary                         | —                                                          | (1                          | ) (1            | ) —                                                        | (3                          | ) (3            |
| Noncontrolling interests of acquired entities, net                               | —                                                          | 7                           | 7               | —                                                          | 92                          | 92              |
| Acquisition of noncontrolling interests                                          | —                                                          | —                           | —               | —                                                          | (2                          | ) (2            |
| Comprehensive income (loss)                                                      | 381                                                        | (20                         | ) 361           | 203                                                        | (8                          | ) 195           |
| Ending Balance, June 30                                                          | \$6,707                                                    | \$ 318                      | \$7,025         | \$6,675                                                    | \$ 419                      | \$7,094         |

## NOTE 4 - ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI)

The following table presents changes in AOCI for the three-month period ended June 30, 2013:

| In millions                                                      | Defined<br>Benefit<br>Pension and<br>Postretirement<br>Items (a) | Change in<br>Cumulative<br>Foreign<br>Currency<br>Translation<br>Adjustments (a) | Net Gains<br>and Losses<br>on Cash<br>Flow<br>Hedging<br>Derivatives<br>(a) | Total (a)    |
|------------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------|
| Balance as of March 31, 2013                                     | \$ (3,518                                                        | ) \$(255                                                                         | ) \$10                                                                      | \$(3,763 )   |
| Other comprehensive income (loss) before reclassifications       | —                                                                | (337                                                                             | ) (15                                                                       | ) (352 )     |
| Amounts reclassified from accumulated other comprehensive income | 76                                                               | —                                                                                | (12                                                                         | ) 64         |
| Net Current Period Other Comprehensive Income                    | 76                                                               | (337                                                                             | ) (27                                                                       | ) (288 )     |
| Balance as of June 30, 2013                                      | \$ (3,442                                                        | ) \$(592                                                                         | ) \$(17                                                                     | ) \$(4,051 ) |

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

The following table presents changes in AOCI for the three-month period ended June 30, 2012:

| In millions | Defined<br>Benefit | Change in<br>Cumulative | Net Gains<br>and Losses | Total (a) |
|-------------|--------------------|-------------------------|-------------------------|-----------|
|-------------|--------------------|-------------------------|-------------------------|-----------|

|                                                                     | Pension and<br>Postretirement<br>Items (a) | Foreign<br>Currency<br>Translation<br>Adjustments (a) | on Cash<br>Flow<br>Hedging<br>Derivatives<br>(a) |               |
|---------------------------------------------------------------------|--------------------------------------------|-------------------------------------------------------|--------------------------------------------------|---------------|
| Balance as of March 31, 2012                                        | \$ (2,779 )                                | \$82                                                  | \$ (5 )                                          | \$ (2,702 )   |
| Other comprehensive income (loss) before<br>reclassifications       | —                                          | (474                                                  | ) (21                                            | ) (495 )      |
| Amounts reclassified from accumulated other<br>comprehensive income | 49                                         | —                                                     | 9                                                | 58            |
| Net Current Period Other Comprehensive Income                       | 49                                         | (474                                                  | ) (12                                            | ) (437 )      |
| Balance as of June 30, 2012                                         | \$ (2,730 )                                | \$ (392                                               | ) \$ (17                                         | ) \$ (3,139 ) |

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

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The following table presents changes in AOCI for the six-month period ended June 30, 2013:

| In millions                                                      | Defined Benefit Pension and Postretirement Items (a) | Change in Cumulative Foreign Currency Translation Adjustments (a) | Net Gains and Losses on Cash Flow Hedging Derivatives (a) | Total (a)   |
|------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|-------------|
| Balance as of January 1, 2013                                    | \$ (3,596 )                                          | \$ (246 )                                                         | \$ 2                                                      | \$ (3,840 ) |
| Other comprehensive income (loss) before reclassifications       | —                                                    | (363 )                                                            | (10 )                                                     | (373 )      |
| Amounts reclassified from accumulated other comprehensive income | 154                                                  | 17                                                                | (9 )                                                      | 162         |
| Net Current Period Other Comprehensive Income                    | 154                                                  | (346 )                                                            | (19 )                                                     | (211 )      |
| Balance as of June 30, 2013                                      | \$ (3,442 )                                          | \$ (592 )                                                         | \$ (17 )                                                  | \$ (4,051 ) |

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

The following table presents changes in AOCI for the six-month period ended June 30, 2012:

| In millions                                                      | Defined Benefit Pension and Postretirement Items (a) | Change in Cumulative Foreign Currency Translation Adjustments (a) | Net Gains and Losses on Cash Flow Hedging Derivatives (a) | Total (a)   |
|------------------------------------------------------------------|------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------|-------------|
| Balance as of January 1, 2012                                    | \$ (2,852 )                                          | \$ (117 )                                                         | \$ (36 )                                                  | \$ (3,005 ) |
| Other comprehensive income (loss) before reclassifications       | 24                                                   | (240 )                                                            | 6                                                         | (210 )      |
| Amounts reclassified from accumulated other comprehensive income | 98                                                   | (35 )                                                             | 13                                                        | 76          |
| Net Current Period Other Comprehensive Income                    | 122                                                  | (275 )                                                            | 19                                                        | (134 )      |
| Balance as of June 30, 2012                                      | \$ (2,730 )                                          | \$ (392 )                                                         | \$ (17 )                                                  | \$ (3,139 ) |

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

The following table presents details of the reclassifications out of AOCI for the three-month period ended June 30, 2013:

| Details About Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income (a) | Location of Amount Reclassified from AOCI |
|-----------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------|
| In millions:                                                    |                                                                     |                                           |
| Defined benefit pension and postretirement items:               |                                                                     |                                           |
| Prior-service costs                                             | \$ (3 )                                                             | (b) Cost of products sold                 |
| Actuarial gains/(losses)                                        | (122 )                                                              | (b) Cost of products sold                 |
| Total pre-tax amount                                            | (125 )                                                              |                                           |
| Tax (expense)/benefit                                           | 49                                                                  |                                           |
| Net of tax                                                      | \$ (76 )                                                            |                                           |
| Net gains and losses on cash flow hedging derivatives:          |                                                                     |                                           |
| Foreign exchange contracts                                      | \$ 18                                                               | (c) Cost of products sold                 |
| Total pre-tax amount                                            | 18                                                                  |                                           |

|                                        |       |   |
|----------------------------------------|-------|---|
| Tax (expense)/benefit                  | (6    | ) |
| Net of tax                             | 12    |   |
| Total reclassifications for the period | \$(64 | ) |

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

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

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

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The following table presents details of the reclassifications out of AOCI for the three-month period ended June 30, 2012:

| Details About Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income (a) | Location of Amount Reclassified from AOCI |
|-----------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------|
| In millions:                                                    |                                                                     |                                           |
| Defined benefit pension and postretirement items:               |                                                                     |                                           |
| Prior-service costs                                             | \$—                                                                 | (b) Cost of products sold                 |
| Actuarial gains/(losses)                                        | (80)                                                                | (b) Cost of products sold                 |
| Total pre-tax amount                                            | (80)                                                                | )                                         |
| Tax (expense)/benefit                                           | 31                                                                  |                                           |
| Net of tax                                                      | \$(49)                                                              | )                                         |
| Net gains and losses on cash flow hedging derivatives:          |                                                                     |                                           |
| Foreign exchange contracts                                      | \$(10)                                                              | (c) Cost of products sold                 |
| Natural gas contracts                                           | (4)                                                                 | (c) Cost of products sold                 |
| Total pre-tax amount                                            | (14)                                                                | )                                         |
| Tax (expense)/benefit                                           | 5                                                                   |                                           |
| Net of tax                                                      | (9)                                                                 | )                                         |
| Total reclassifications for the period                          | \$(58)                                                              | )                                         |

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

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

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

The following table presents details of the reclassifications out of AOCI for the six-month period ended June 30, 2013:

| Details About Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income (a) | Location of Amount Reclassified from AOCI              |
|-----------------------------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------------|
| In millions                                                     |                                                                     |                                                        |
| Defined benefit pension and postretirement items:               |                                                                     |                                                        |
| Prior-service costs                                             | \$(5)                                                               | (b) Cost of products sold                              |
| Actuarial gains/(losses)                                        | (247)                                                               | (b) Cost of products sold                              |
| Total pre-tax amount                                            | (252)                                                               | )                                                      |
| Tax (expense)/benefit                                           | 98                                                                  |                                                        |
| Net of tax                                                      | \$(154)                                                             | )                                                      |
| Change in cumulative foreign currency translation adjustments:  |                                                                     |                                                        |
| Business acquisition/divestitures                               | \$(17)                                                              | ) Net bargain purchase gain on acquisition of business |
| Tax (expense)/benefit                                           | —                                                                   |                                                        |
| Net of tax                                                      | \$(17)                                                              | )                                                      |
| Net gains and losses on cash flow hedging derivatives:          |                                                                     |                                                        |
| Foreign exchange contracts                                      | \$13                                                                | (c) Cost of products sold                              |
| Total pre-tax amount                                            | 13                                                                  |                                                        |

|                                        |        |   |
|----------------------------------------|--------|---|
| Tax (expense)/benefit                  | (4     | ) |
| Net of tax                             | 9      |   |
| Total reclassifications for the period | \$(162 | ) |

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

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

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

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The following table presents details of the reclassifications out of AOCI for the six-month period ended June 30, 2012:

| Details About Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income (a) | Location of Amount Reclassified from AOCI                 |
|-----------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------|
| In millions                                                     |                                                                     |                                                           |
| Defined benefit pension and postretirement items:               |                                                                     |                                                           |
| Prior-service costs                                             | \$(1)                                                               | ) (b) Cost of products sold                               |
| Actuarial gains/(losses)                                        | (159)                                                               | ) (b) Cost of products sold                               |
| Total pre-tax amount                                            | (160)                                                               | )                                                         |
| Tax (expense)/benefit                                           | 62                                                                  |                                                           |
| Net of tax                                                      | \$(98)                                                              | )                                                         |
| Change in cumulative foreign currency translation adjustments:  |                                                                     |                                                           |
| Business acquisitions/divestitures                              | \$48                                                                | Net (gains) losses on sales and impairments of businesses |
| Tax (expense)/benefit                                           | (13)                                                                | )                                                         |
| Net of tax                                                      | \$35                                                                |                                                           |
| Net gains and losses on cash flow hedging derivatives:          |                                                                     |                                                           |
| Foreign exchange contracts                                      | \$(10)                                                              | ) (c) Cost of products sold                               |
| Natural gas contracts                                           | (11)                                                                | ) (c) Cost of products sold                               |
| Total pre-tax amount                                            | (21)                                                                | )                                                         |
| Tax (expense)/benefit                                           | 8                                                                   |                                                           |
| Net of tax                                                      | (13)                                                                | )                                                         |
| Total reclassifications for the period                          | \$(76)                                                              | )                                                         |

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

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

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

#### NOTE 5 - EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding. Diluted earnings per common share are computed assuming that all potentially dilutive securities, including "in-the-money" stock options, were converted into common shares. A reconciliation of the amounts included in the computation of earnings (loss) per common share, and diluted earnings (loss) per common share is as follows:

| In millions, except per share amounts                          | Three Months Ended June 30, |       | Six Months Ended June 30, |       |
|----------------------------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                                                | 2013                        | 2012  | 2013                      | 2012  |
| Earnings (loss) from continuing operations                     | \$235                       | \$118 | \$527                     | \$301 |
| Effect of dilutive securities (a)                              | —                           | —     | —                         | —     |
| Earnings (loss) from continuing operations – assuming dilution | \$235                       | \$118 | \$527                     | \$301 |
| Average common shares outstanding                              | 444.9                       | 434.8 | 443.2                     | 434.5 |
| Effect of dilutive securities (a)                              |                             |       |                           |       |

|                                                                     |        |        |        |        |
|---------------------------------------------------------------------|--------|--------|--------|--------|
| Restricted stock performance share plan                             | 3.3    | 3.4    | 4.3    | 4.8    |
| Stock options (b)                                                   | 0.3    | —      | 0.4    | —      |
| Average common shares outstanding – assuming dilution               | 448.5  | 438.2  | 447.9  | 439.3  |
| Basic earnings (loss) from continuing operations per common share   | \$0.53 | \$0.27 | \$1.19 | \$0.69 |
| Diluted earnings (loss) from continuing operations per common share | \$0.52 | \$0.27 | \$1.18 | \$0.68 |

(a) Securities are not included in the table in periods when antidilutive.

Options to purchase 12.1 million shares for the three months ended June 30, 2012 and 12.1 million shares for the six months ended June 30, 2012 were not included in the computation of diluted common shares outstanding because their exercise price exceeded the average market price of the Company's common stock for each respective reporting period.

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## NOTE 6 - RESTRUCTURING AND OTHER CHARGES

2013: During the three months ended June 30, 2013, restructuring and other charges totaling a gain of \$4 million before taxes (\$2 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>June 30, 2013 |                      |
|---------------------------------|-------------------------------------|----------------------|
|                                 | Before-Tax<br>Charges               | After-Tax<br>Charges |
| Early debt extinguishment costs | \$3                                 | \$2                  |
| Insurance reimbursements        | (30)                                | (19)                 |
| xpedx restructuring             | 17                                  | 10                   |
| Other                           | 6                                   | 5                    |
| Total                           | \$(4)                               | \$(2)                |

During the three months ended March 31, 2013, restructuring and other charges totaling \$59 million before taxes (\$36 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>March 31, 2013 |                      |
|---------------------------------|--------------------------------------|----------------------|
|                                 | Before-Tax<br>Charges                | After-Tax<br>Charges |
| Early debt extinguishment costs | \$6                                  | \$4                  |
| xpedx restructuring             | 7                                    | 4                    |
| Augusta paper machine shutdown  | 44                                   | 27                   |
| Other                           | 2                                    | 1                    |
| Total                           | \$59                                 | \$36                 |

2012: During the three months ended June 30, 2012, restructuring and other charges totaling \$21 million before taxes (\$13 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>June 30, 2012 |                      |
|---------------------------------|-------------------------------------|----------------------|
|                                 | Before-Tax<br>Charges               | After-Tax<br>Charges |
| Early debt extinguishment costs | \$10                                | \$6                  |
| xpedx restructuring             | 10                                  | 6                    |
| Other                           | 1                                   | 1                    |
| Total                           | \$21                                | \$13                 |

During the three months ended March 31, 2012, restructuring and other charges totaling \$34 million before taxes (\$23 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>March 31, 2012 |                      |
|---------------------------------|--------------------------------------|----------------------|
|                                 | Before-Tax<br>Charges                | After-Tax<br>Charges |
| Early debt extinguishment costs | \$16                                 | \$10                 |
| xpedx restructuring             | 19                                   | 14                   |
| Other                           | (1)                                  | (1)                  |
| Total                           | \$34                                 | \$23                 |

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## NOTE 7 - ACQUISITIONS AND JOINT VENTURES

## Acquisitions

2013: On January 3, 2013, International Paper completed the acquisition (effective date of acquisition on January 1, 2013) of the shares of its joint venture partner, Sabanci Holding, in the Turkish corrugated packaging company, Olmuksa International Paper Sabanci Ambalaj Sanayi ve Ticaret A.S. (now called Olmuksan International Paper or Olmuksan), for a purchase price of \$56 million. The acquired shares represent 43.7% of Olmuksan's shares. Prior to this acquisition, International Paper held a 43.7% equity interest in Olmuksan.

Because the transaction resulted in International Paper becoming the majority shareholder, owning 87.4% of Olmuksan's outstanding and issued shares, its completion triggered a mandatory call for tender of the remaining public shares which began in March 2013 and ended in April 2013, with no shares tendered. Also as a result of International Paper taking majority control of the entity, Olmuksan's financial results have been consolidated with the Company's Industrial Packaging segment beginning January 1, 2013, the effective date which International Paper obtained majority control of the entity.

Following the transaction, the Company's previously held 43.7% equity interest in Olmuksan was remeasured to a fair value of \$75 million, resulting in a gain of \$9 million. The fair value was estimated by applying the discounted cash flow approach, using a 13% discount rate, long-term sustainable growth rates ranging from 6% to 9% and a corporate tax rate of 20%. In addition, the cumulative translation adjustment balance of \$17 million relating to the previously held equity interest was reclassified, as expense, to Net bargain purchase gain on acquisition of business in the accompanying consolidated statement of operations, from accumulated other comprehensive income.

The preliminary purchase price allocation indicates that the sum of the cash consideration paid, the fair value of the noncontrolling interest and the fair value of the previously held interest is less than the fair value of the underlying assets by \$22 million, resulting in a bargain purchase price gain being recorded on this transaction.

The \$17 million reclassification of the cumulative translation balance and \$18 million of the estimated bargain purchase gain were recorded in the 2013 first-quarter earnings. The \$9 million gain resulting from the measurement of the previously held equity interest and an additional \$4 million bargain purchase gain were recorded in 2013 second-quarter earnings and are included in the Net bargain purchase gain on acquisition of business line item in the accompanying consolidated statement of operations.

Due to the timing of the completion of the acquisition, certain assumptions and estimates were used in determining the preliminary purchase price allocation. Those assumptions and estimates primarily relate to the amounts allocated to deferred taxes and contingent liabilities (which are included in Accounts payable and accrued liabilities in the accompanying consolidated balance sheet), as work is still ongoing as of June 30, 2013 to determine the fair value of those assets and liabilities at the acquisition date. Therefore, the amounts disclosed may change as the purchase price allocation is finalized. The purchase price allocation is expected to be finalized in the third quarter of 2013.

The following table summarizes the preliminary allocation of the purchase price to the fair value of assets and liabilities acquired as of January 1, 2013.

In millions

|                                                        |     |
|--------------------------------------------------------|-----|
| Cash and temporary investments                         | \$5 |
| Accounts and notes receivable                          | 72  |
| Inventory                                              | 31  |
| Other current assets                                   | 2   |
| Plants, properties and equipment                       | 105 |
| Investments                                            | 11  |
| Total assets acquired                                  | 226 |
| Notes payable and current maturities of long-term debt | 17  |
| Accounts payable and accrued liabilities               | 27  |
| Deferred income tax liability                          | 4   |
| Postretirement and postemployment benefit obligation   | 6   |
| Total liabilities assumed                              | 54  |
| Noncontrolling interest                                | 18  |

|                     |       |
|---------------------|-------|
| Net assets acquired | \$154 |
|---------------------|-------|

Pro forma information related to the acquisition of Olmuksan has not been included as it does not have a material effect on the Company's consolidated results of operations.

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2012: On February 13, 2012, International Paper completed the acquisition of Temple-Inland Inc. (Temple-Inland). International Paper acquired all of the outstanding common stock of Temple-Inland for \$32.00 per share in cash, totaling approximately \$3.7 billion, and assumed approximately \$700 million in Temple-Inland's debt. As a condition to allowing the transaction to proceed, the Company entered into an agreement on a proposed Final Judgment with the Antitrust Division of the U.S. Department of Justice (DOJ) that required the Company to divest three containerboard mills, with approximately 970,000 tons of aggregate containerboard capacity. On July 2, 2012, International Paper finalized the sales of its Ontario and Oxnard (Hueneme), California containerboard mills to New-Indy Containerboard LLC, and its New Johnsonville, Tennessee containerboard mill to Hood Container Corporation. By completing these transactions, the Company satisfied its divestiture obligations under the Final Judgment. See Note 8 for further details of these divestitures.

Temple-Inland's results of operations are included in the consolidated financial statements from the date of acquisition on February 13, 2012.

The following summarizes the allocation of the purchase price to the fair value of assets and liabilities acquired as of February 13, 2012, which was finalized in the fourth quarter of 2012.

In millions

|                                                               |         |
|---------------------------------------------------------------|---------|
| Accounts and notes receivable                                 | \$466   |
| Inventory                                                     | 484     |
| Deferred income tax assets – current                          | 140     |
| Other current assets                                          | 57      |
| Plants, properties and equipment                              | 2,911   |
| Financial assets of special purpose entities                  | 2,091   |
| Goodwill                                                      | 2,139   |
| Other intangible assets                                       | 693     |
| Deferred charges and other assets                             | 54      |
| Total assets acquired                                         | 9,035   |
| Notes payable and current maturities of long-term debt        | 130     |
| Accounts payable and accrued liabilities                      | 704     |
| Long-term debt                                                | 527     |
| Nonrecourse financial liabilities of special purpose entities | 2,030   |
| Deferred income tax liability                                 | 1,252   |
| Pension benefit obligation                                    | 338     |
| Postretirement and postemployment benefit obligation          | 99      |
| Other liabilities                                             | 221     |
| Total liabilities assumed                                     | 5,301   |
| Net assets acquired                                           | \$3,734 |

The identifiable intangible assets acquired in connection with the Temple-Inland acquisition included the following:

| In millions            | Estimated<br>Fair Value | Average<br>Remaining<br>Useful Life<br>(at acquisition date) |
|------------------------|-------------------------|--------------------------------------------------------------|
| Asset Class:           |                         |                                                              |
| Customer relationships | \$536                   | 12-17 years                                                  |
| Developed technology   | 8                       | 5-10 years                                                   |
| Tradenames             | 109                     | Indefinite                                                   |
| Favorable contracts    | 14                      | 4-7 years                                                    |
| Non-compete agreement  | 26                      | 2 years                                                      |
| Total                  | \$693                   |                                                              |

In connection with the purchase price allocation, inventories were written up by approximately \$20 million before taxes (\$12 million after taxes) to their estimated fair value. As the related inventories were sold in the 2012 first

quarter, this amount was expensed in Cost of products sold for the quarter.

Additionally, Selling and administrative expenses included \$14 million (\$8 million after taxes) and \$26 million (\$16 million after taxes), for the three months and six months ended June 30, 2013, respectively, and \$35 million (\$22 million after taxes)

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and \$78 million (\$55 million after taxes), for the three months and six months ended June 30, 2012, respectively, in charges for integration costs associated with the acquisition.

The following unaudited pro forma information for the six months ended June 30, 2012 represents the results of operations of International Paper as if the Temple-Inland acquisition had occurred as of January 1, 2012. This information does not purport to represent International Paper's actual results of operations if the transaction described above would have occurred on January 1, 2012, nor is it necessarily indicative of future results.

| In millions, except per share amounts                                   | Six Months<br>Ended<br>June 30, 2012 |
|-------------------------------------------------------------------------|--------------------------------------|
| Net sales                                                               | \$14,024                             |
| Earnings (loss) from continuing operations (a)                          | 342                                  |
| Net earnings (loss) (a)                                                 | 363                                  |
| Diluted earnings (loss) from continuing operations per common share (a) | 0.78                                 |
| Diluted net earnings (loss) per common share (a)                        | 0.83                                 |
| (a) Attributable to International Paper Company common shareholders.    |                                      |

Joint Ventures

2013: On January 14, 2013, International Paper and Brazilian corrugated packaging producer, Jari Celulose, Papel e Embalagens S.A. (Jari), a Grupo Orsa company, formed Orsa International Paper Embalagens S.A. (Orsa IP). The new entity, in which International Paper holds a 75% stake, includes three containerboard mills and four box plants, which make up Jari's former industrial packaging assets. This acquisition supports the Company's strategy of growing its global packaging presence and better serving its global customer base.

The value of International Paper's investment in Orsa IP is approximately \$465 million. Because International Paper acquired majority control of the joint venture, Orsa IP's financial results have been consolidated with our Industrial Packaging segment from the date of formation on January 14, 2013.

Due to the timing of the completion of the acquisition, certain assumptions and estimates were used in determining the preliminary purchase price allocation. Those assumptions and estimates primarily relate to the amounts allocated to deferred taxes and postretirement and postemployment benefit obligations, as work is still ongoing as of June 30, 2013 to determine the fair value of those assets and liabilities at the acquisition date. Therefore, the amount disclosed may change materially as the purchase price allocation is refined. The purchase price allocation is expected to be finalized during the fourth quarter of 2013.

The following table summarizes the preliminary allocation of the purchase price to the fair value of assets and liabilities acquired as of January 14, 2013.

|                                          |       |
|------------------------------------------|-------|
| In millions                              |       |
| Cash and temporary investments           | \$16  |
| Accounts and notes receivable, net       | 5     |
| Inventory                                | 27    |
| Plants, properties and equipment         | 293   |
| Goodwill                                 | 190   |
| Other intangible assets                  | 144   |
| Other long-term assets                   | 3     |
| Total assets acquired                    | 678   |
| Accounts payable and accrued liabilities | 10    |
| Deferred income tax liability            | 69    |
| Total liabilities assumed                | 79    |
| Noncontrolling interest                  | 134   |
| Net assets acquired                      | \$465 |

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The identifiable intangible assets acquired in connection with the Orsa IP acquisition included the following:

| In millions            | Estimated<br>Fair Value | Average<br>Remaining<br>Useful Life<br>(at acquisition date) |
|------------------------|-------------------------|--------------------------------------------------------------|
| Asset Class:           |                         |                                                              |
| Customer relationships | \$ 116                  | 12 years                                                     |
| Trademark              | 4                       | 6 years                                                      |
| Wood supply agreement  | 24                      | 25 years                                                     |
| Total                  | \$ 144                  |                                                              |

Pro forma information related to the acquisition of Orsa IP has not been included as it does not have a material effect on the Company's consolidated results of operations.

Due to the complex organizational structure of Orsa IP's operations, and the extended time required to prepare consolidated financial information in accordance with accounting principles generally accepted in the United States, the Company reports its share of Orsa IP's operating results on a one-month lag basis.

**NOTE 8 - BUSINESSES HELD FOR SALE, DIVESTITURES AND IMPAIRMENTS****Discontinued Operations**

On July 19, 2013, the Company finalized the sale of its Temple-Inland Building Products division, which included 15 manufacturing facilities, to Georgia-Pacific Building Products, LLC for \$710 million in cash, subject to customary closing adjustments.

On April 1, 2013, the Company finalized the sale of Temple-Inland's 50% interest in Del-Tin Fiber L.L.C. (Del-Tin) to joint venture partner Deltic Timber Corporation (Deltic) for \$20 million in assumed liabilities and cash.

Accordingly, the Del-Tin assets (which included a manufacturing facility) were excluded from the sale to Georgia-Pacific and the purchase price under our sale agreement with Georgia-Pacific was adjusted from \$750 million to \$710 million.

The operating results of the Temple-Inland Building Products business have been included in Discontinued operations from the date of acquisition. The assets of this business, totaling \$774 million and \$759 million at June 30, 2013 and December 31, 2012, respectively, are included in Assets of businesses held for sale in current assets in the accompanying consolidated balance sheet at June 30, 2013 and December 31, 2012. Included in these amounts are \$26 million and \$153 million related to goodwill and intangibles, respectively. The liabilities of this business, totaling \$54 million and \$44 million at June 30, 2013 and December 31, 2012, respectively, are included in Liabilities of businesses held for sale in the accompanying consolidated balance sheet at June 30, 2013 and December 31, 2012.

**Other Divestitures and Impairments**

2012: As referenced in Note 7, on July 2, 2012, International Paper finalized the sales of its Ontario and Oxnard (Hueneme), California containerboard mills to New-Indy Containerboard LLC, and its New Johnsonville, Tennessee containerboard mill to Hood Container Corporation. A pre-tax charge of \$9 million (\$5 million after taxes) was recorded during the three months ended June 30, 2012 for costs associated with the divestiture of these three containerboard mills. Also, in anticipation of the divestiture of the Hueneme mill in Oxnard, California, a pre-tax charge of \$62 million (\$38 million after taxes) was recorded during the three months ended June 30, 2012 to adjust the long-lived assets of the mill to their fair value.

Also during the three months ended June 30, 2012, the Company recorded a pre-tax charge of \$6 million (\$4 million after taxes) to adjust the previously estimated loss on the sale of the Company's Shorewood business.

During the three months ended March 31, 2012, the Company recorded a pre-tax gain of \$7 million (\$6 million after taxes) to adjust the previously estimated loss on the sale of the Company's Shorewood business. The sale of the Shorewood non-U.S. business was completed in January 2012.

All of the charges discussed above are included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations.



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## NOTE 9 - SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

## Temporary Investments

| In millions           | June 30, 2013 | December 31, 2012 |
|-----------------------|---------------|-------------------|
| Temporary investments | \$855         | \$934             |

## Accounts and Notes Receivable

| In millions | June 30, 2013 | December 31, 2012 |
|-------------|---------------|-------------------|
|-------------|---------------|-------------------|

## Accounts and notes receivable, net:

|       |         |         |
|-------|---------|---------|
| Trade | \$3,685 | \$3,316 |
| Other | 261     | 246     |
| Total | \$3,946 | \$3,562 |

## Inventories

| In millions | June 30, 2013 | December 31, 2012 |
|-------------|---------------|-------------------|
|-------------|---------------|-------------------|

|                                    |         |         |
|------------------------------------|---------|---------|
| Raw materials                      | \$344   | \$360   |
| Finished pulp, paper and packaging | 1,737   | 1,728   |
| Operating supplies                 | 588     | 588     |
| Other                              | 76      | 54      |
| Total                              | \$2,745 | \$2,730 |

## Depreciation Expense

|                      | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|----------------------|--------------------------------|-------|------------------------------|-------|
| In millions          | 2013                           | 2012  | 2013                         | 2012  |
| Depreciation expense | \$360                          | \$353 | \$716                        | \$698 |

## Valuation Accounts

Certain valuation accounts were as follows:

| In millions                     | June 30, 2013 | December 31, 2012 |
|---------------------------------|---------------|-------------------|
| Accumulated depreciation        | \$19,418      | \$18,934          |
| Allowance for doubtful accounts | 135           | 119               |

During the second quarter of 2013, a reserve of \$28 million on \$42 million of total receivables from a large envelope company was recorded due to their filing for bankruptcy protection in June 2013. The reserve is based on the Company's estimate of ultimate expected losses associated with the outstanding receivable balance.

There was no material activity related to asset retirement obligations during either of the six months ended June 30, 2013 or 2012.

## Interest

Cash payments related to interest were as follows:

|                   | Six Months Ended<br>June 30, |       |
|-------------------|------------------------------|-------|
| In millions       | 2013                         | 2012  |
| Interest payments | \$384                        | \$349 |

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Amounts related to interest were as follows:

| In millions                | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|----------------------------|--------------------------------|-------|------------------------------|-------|
|                            | 2013                           | 2012  | 2013                         | 2012  |
| Interest expense (a)       | \$181                          | \$179 | \$358                        | \$362 |
| Interest income (a)        | 13                             | 7     | 26                           | 22    |
| Capitalized interest costs | 4                              | 13    | 8                            | 19    |

Interest expense and interest income exclude approximately \$11 million and \$24 million for the three months and six months ended June 30, 2013 and \$12 million and \$20 million for the three months and six months ended (a) June 30, 2012, respectively, related to investments in and borrowings from variable interest entities for which the Company has a legal right of offset (see Note 13).

#### Postretirement Benefit Expense

The components of the Company's postretirement benefit expense were as follows:

| In millions                          | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|--------------------------------------|--------------------------------|-------|------------------------------|-------|
|                                      | 2013                           | 2012  | 2013                         | 2012  |
| Service cost                         | \$1                            | \$—   | \$1                          | \$1   |
| Interest cost                        | 3                              | 5     | 7                            | 10    |
| Actuarial loss                       | —                              | 3     | 3                            | 5     |
| Amortization of prior service credit | (6                             | ) (7  | ) (12                        | ) (14 |
| Net postretirement benefit expense   | \$(2                           | ) \$1 | \$(1                         | ) \$2 |

#### NOTE 10 - GOODWILL AND OTHER INTANGIBLES

##### Goodwill

The following table presents changes in goodwill balances as allocated to each business segment for the six-month period ended June 30, 2013:

| In millions                       | Industrial<br>Packaging | Printing<br>Papers | Consumer<br>Packaging | Distribution | Total    |
|-----------------------------------|-------------------------|--------------------|-----------------------|--------------|----------|
| Balance as of January 1, 2013     |                         |                    |                       |              |          |
| Goodwill                          | \$3,165                 | \$2,396            | \$1,783               | \$400        | \$7,744  |
| Accumulated impairment losses (a) | —                       | (1,765 )           | (1,664 )              | —            | (3,429 ) |
|                                   | 3,165                   | 631                | 119                   | 400          | 4,315    |
| Reclassifications and other (b)   | (14 )                   | (44 )              | 2                     | —            | (56 )    |
| Additions/reductions              | 190 (c)                 | (12 ) (d)          | —                     | —            | 178      |
| Balance as of June 30, 2013       |                         |                    |                       |              |          |
| Goodwill                          | 3,341                   | 2,340              | 1,785                 | 400          | 7,866    |
| Accumulated impairment losses (a) | —                       | (1,765 )           | (1,664 )              | —            | (3,429 ) |
| Total                             | \$3,341                 | \$575              | \$121                 | \$400        | \$4,437  |

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

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

(c) Represents Orsa IP, the newly formed joint venture in Brazil.

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



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## Other Intangibles

Identifiable intangible assets comprised the following:

| In millions                        | June 30, 2013         |                          | December 31, 2012     |                          |
|------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                    | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships and lists   | \$737                 | \$125                    | \$644                 | \$112                    |
| Non-compete agreements             | 79                    | 38                       | 83                    | 30                       |
| Tradenames, patents and trademarks | 161                   | 16                       | 144                   | 16                       |
| Land and water rights              | 69                    | 6                        | 87                    | 6                        |
| Fuel and power agreements          | 18                    | 14                       | 17                    | 12                       |
| Software                           | 29                    | 28                       | 22                    | 19                       |
| Other                              | 105                   | 16                       | 83                    | 19                       |
| Total                              | \$1,198               | \$243                    | \$1,080               | \$214                    |

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

| In millions                                       | Three Months Ended |      | Six Months Ended |      |
|---------------------------------------------------|--------------------|------|------------------|------|
|                                                   | June 30, 2013      | 2012 | June 30, 2013    | 2012 |
| Amortization expense related to intangible assets | \$19               | \$7  | \$36             | \$15 |

## NOTE 11 - INCOME TAXES

International Paper made income tax payments, net of refunds, as follows:

| In millions              | Six Months Ended |        |
|--------------------------|------------------|--------|
|                          | June 30, 2013    | 2012   |
| Income tax payments, net | \$164            | \$(20) |

The following table presents a rollforward of unrecognized tax benefits and related accrued estimated interest and penalties for the six months ended June 30, 2013:

| In millions                                       | Unrecognized Tax Benefits | Accrued Estimated Interest and Tax Penalties |
|---------------------------------------------------|---------------------------|----------------------------------------------|
| Balance at December 31, 2012                      | \$(972)                   | \$(104)                                      |
| Activity for three months ended March 31, 2013    | 99                        | 20                                           |
| Activity for the three months ended June 30, 2013 | 6                         | 1                                            |
| Balance at June 30, 2013                          | \$(867)                   | \$(83)                                       |

The Company currently estimates that, as a result of ongoing discussions, pending tax settlements and expirations of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately \$750 million during the next 12 months and approximately \$680 million of this reduction will positively impact the effective rate. Included in the Company's income tax provisions for the six months ended June 30, 2013 and 2012, are \$126 million and \$79 million of income tax benefits, respectively, related to special items. The components of the net provision related to special items were as follows:

| In millions               | Six Months Ended |        |
|---------------------------|------------------|--------|
|                           | June 30, 2013    | 2012   |
| Special items             | \$(37)           | \$(82) |
| Tax-related adjustments:  |                  |        |
| Temple-Inland acquisition | —                | 3      |
| IRS audit settlement      | (91)             | —      |
| Other                     | 2                | —      |

|                                                         |        |         |   |
|---------------------------------------------------------|--------|---------|---|
| Income tax provision (benefit) related to special items | \$(126 | ) \$(79 | ) |
|---------------------------------------------------------|--------|---------|---|

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NOTE 12 - COMMITMENTS AND CONTINGENCIES

Environmental Proceedings

International Paper has been named as a potentially responsible party in environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Many of these proceedings involve the cleanup of hazardous substances at large commercial landfills that received waste from many different sources. While joint and several liability is authorized under CERCLA and equivalent state laws, as a practical matter, liability for CERCLA cleanups is typically allocated among the many potential responsible parties. Remedial costs are recorded in the consolidated financial statements when they become probable and reasonably estimable. International Paper has estimated the probable liability associated with these matters to be approximately \$96 million in the aggregate.

Cass Lake: One of the matters referenced above is a closed wood treating facility located in Cass Lake, Minnesota. During 2009, in connection with an environmental site remediation action under CERCLA, International Paper submitted to the EPA a site remediation feasibility study. In June 2011, the EPA selected and published a proposed soil remedy at the site with an estimated cost of \$46 million. The overall remediation reserve for the site is currently \$52 million to address this selection of an alternative for the soil remediation component of the overall site remedy. In October 2011, the EPA released a public statement indicating that the final soil remedy decision would be delayed. In the unlikely event that the EPA changes its proposed soil remedy and approves instead a more expensive clean-up alternative, the remediation costs could be material, and significantly higher than amounts currently recorded. In October 2012, the Natural Resource Trustees for this site provided notice to International Paper and other potentially responsible parties of their intent to perform a Natural Resource Damage Assessment. It is premature to predict the outcome of the assessment or to estimate a loss or range of loss, if any, which may be incurred.

Other: In addition to the above matters, other remediation costs typically associated with the cleanup of hazardous substances at the Company's current, closed or formerly-owned facilities, and recorded as liabilities in the balance sheet, totaled approximately \$44 million at June 30, 2013. Other than as described above, completion of required remedial actions is not expected to have a material effect on our consolidated financial statements.

Kalamazoo River: The Company is a potentially responsible party with respect to the Allied Paper, Inc./Portage Creek/Kalamazoo River Superfund Site (Kalamazoo River Superfund Site) in Michigan. The EPA asserts that the site is contaminated primarily by PCBs as a result of discharges from various paper mills located along the Kalamazoo River, including a paper mill formerly owned by St. Regis Paper Co. (St. Regis). The Company is a successor in interest to St. Regis. International Paper has not received any orders from the EPA with respect to the site and is in the process of collecting information from the EPA and other parties relative to the site to evaluate the extent of its liability, if any, with respect to the site. Accordingly, it is premature to estimate a loss or range of loss with respect to this site.

Also in connection with the Kalamazoo River Superfund Site, the Company was named as a defendant by Georgia-Pacific Consumer Products LP, Fort James Corporation and Georgia Pacific LLC in a contribution and cost recovery action for alleged pollution at the Kalamazoo River Superfund Site. The suit seeks contribution under CERCLA for \$79 million in costs purportedly expended by plaintiffs as of the filing of the complaint and for future remediation costs. The suit alleges that a mill, during the time it was allegedly owned and operated by St. Regis, discharged PCB contaminated solids and paper residuals resulting from paper de-inking and recycling. Also named as defendants in the suit are NCR Corporation and Weyerhaeuser Company. In mid-2011, the suit was transferred from the District Court for the Eastern District of Wisconsin to the District Court for the Western District of Michigan. The trial of the initial liability phase took place in February 2013, although there has not yet been any decision regarding the Company's liability. The Company thus believes it is premature to predict the outcome or to estimate a loss or range of loss, if any, which may be incurred.

Harris County: International Paper and McGinnis Industrial Maintenance Corporation, a subsidiary of Waste Management, Inc., are potentially responsible parties at the San Jacinto River Waste Pits Superfund Site (San Jacinto River Superfund Site) in Harris County, Texas, and have been actively participating in investigation and remediation activities at this Superfund site. In December 2011, Harris County, Texas filed a suit against the Company in Harris

County District Court seeking civil penalties with regard to the alleged discharge of dioxin into the San Jacinto River since 1965 from waste impoundments that are part of the San Jacinto River Superfund Site. Also named as defendants in this action are McGinnis Industrial Maintenance Corporation, Waste Management, Inc. and Waste Management of Texas Inc. Harris County is seeking civil penalties pursuant to the Texas Water Code, which provides for the imposition of civil penalties between \$50 and \$25,000 per day. The case is in the discovery phase and it is therefore premature to predict the outcome or to estimate a loss or range of loss, if any, which may be incurred. In October 2012, a civil lawsuit was filed against the same defendants, including the Company, in the District Court of Harris County by what are now 659 plaintiffs seeking medical monitoring and damages with regard to the alleged discharge of dioxin into the San Jacinto River since 1965 from waste impoundments that are a part of the San Jacinto Superfund Site. This case is

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in the discovery phase and it is therefore premature to predict the outcome or to estimate a loss or range of loss, if any, which may be incurred. In December 2012, residents of an up-river neighborhood filed a civil action against the same defendants, including the Company, in the District Court of Harris County alleging property damage and personal injury from the alleged discharge of dioxin into the San Jacinto River from the San Jacinto Superfund Site. This case is in the discovery phase and it is therefore premature to predict the outcome or to estimate a loss or range of loss, if any, which may be incurred.

**Bogalusa:** In August 2011, Temple-Inland's Bogalusa, Louisiana paper mill received predictive test results indicating that Biochemical Oxygen Demand (BOD) limits for permitted discharge from the wastewater treatment pond into the Pearl River were exceeded after an upset condition at the mill and subsequently confirmed reports of a fish kill on the Pearl River (the Bogalusa Incident). Temple-Inland initiated a full mill shut down, notified the Louisiana Department of Environmental Quality (LDEQ) of the situation and took corrective actions to restore the water quality of the river. On September 2, 2011, Bogalusa mill operations were restarted upon receiving approval from the LDEQ. The LDEQ, the Mississippi DEQ, and other regulatory agencies in those states each gave notice of intent to levy penalties and recover restitution damages resulting from the Bogalusa Incident. To date, we have settled for a total of approximately \$1 million the known claims of various Mississippi regulatory agencies and the Louisiana Department of Wildlife and Fisheries (LDWF).

In February 2013, a plea agreement was reached with the U.S. Attorney's Office in New Orleans as a result of a federal criminal investigation into the Bogalusa Incident. On May 29, 2013, the U.S. District Court in New Orleans approved the plea agreement and sentenced Temple-Inland subsidiary, TIN Inc., to a misdemeanor violation of the Clean Water Act and a misdemeanor violation of the National Wildlife Refuge statute. The sentence included a \$3.3 million financial penalty, which was paid in the second quarter of 2013, and a two-year corporate probation period for TIN Inc.

On June 17, 2013, the LDEQ levied a civil enforcement penalty for the Bogalusa Incident of approximately \$1.7 million against TIN Inc. The Company will not contest the penalty and will pay the assessment in the third quarter of 2013. The Bogalusa Mill also expects the LDEQ to levy a civil penalty in an amount greater than \$100,000, but not material, arising from an LDEQ environmental multi-media audit in 2011 and from air permit deviations self-disclosed by the mill in 2012.

Temple-Inland (or its affiliates) is a defendant in 28 civil lawsuits in Louisiana and Mississippi related to the Bogalusa Incident. Fifteen of these civil cases were filed in Louisiana state court shortly after the incident and have been removed and consolidated in an action pending in the U.S. District Court for the Eastern District of Louisiana along with a civil case originally filed in that court. During August 2012, an additional 13 causes of action were filed in federal or state court in Mississippi and Louisiana. In October 2012, International Paper and the Plaintiffs' Steering Committee, the group of attorneys appointed by the Louisiana federal court to organize and coordinate the efforts of all the plaintiffs in this litigation, reached a tentative understanding on key structural terms and an amount for resolution of the litigation. The court granted preliminary approval for the proposed class action settlement on December 19, 2012. There were no opt-outs and four objections which were all later withdrawn. The Fairness Hearing was held July 10, 2013, and the court issued its Final Order and Judgment Approving Class Action Settlement the same day. Under the terms of the settlement agreement, the class action settlement will be deemed final on August 9, 2013, and we will have until September 8, 2013 to fund the settlement. A total of 2,073 putative class members submitted a claim. This settlement does not have a material effect on the Company's consolidated financial statements.

### **Legal Proceedings**

**Antitrust:** In September 2010, eight containerboard producers, including International Paper and Temple-Inland, were named as defendants in a purported class action complaint that alleged a civil violation of Section 1 of the Sherman Act. The suit is captioned Kleen Products LLC v. Packaging Corp. of America (N.D. Ill.). The complaint alleges that the defendants, beginning in August 2005 through November 2010, conspired to limit the supply and thereby increase prices of containerboard products. The alleged class is all persons who purchased containerboard products directly from any defendant for use or delivery in the United States during the period August 2005 to the present. The complaint seeks to recover an unspecified amount of treble actual damages and attorney's fees on behalf of the purported class. Four similar complaints were filed and have been consolidated in the Northern District of Illinois.

Moreover, in January 2011, International Paper was named as a defendant in a lawsuit filed in state court in Cocke County, Tennessee alleging that International Paper violated Tennessee law by conspiring to limit the supply and fix the prices of containerboard from mid-2005 to the present. Plaintiffs in the state court action seek certification of a class of Tennessee indirect purchasers of containerboard products, damages and costs, including attorneys' fees. The Company disputes the allegations made and intends to vigorously defend each action. However, because the Kleen Products case is in the discovery phase and the Tennessee action is in the preliminary stages, we are unable to predict an outcome or estimate a range of reasonably possible loss.

In late December 2012, purchasers of gypsum board filed purported class action complaints alleging civil violations of Section 1 of the Sherman Act against Temple-Inland and a number of other gypsum manufacturers in three separate actions. Two of the actions were filed in the U.S. District Court for the Eastern District of Pennsylvania (E.D. PA) and one in the U.S. District Court for the Northern District of Illinois (N.D. IL). The case in the N.D. IL was voluntarily dismissed in December. Since that

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time, approximately 25 additional actions were collectively filed between the E.D. PA and the N.D. IL and the U.S. District Court for the Western District of North Carolina (W.D. NC), on behalf of direct and indirect purchasers. The complaints are similar and allege that the gypsum manufacturers conspired or otherwise reached agreements to: (1) raise prices of gypsum board either from 2008 or 2011 through the present; (2) avoid price erosion by ceasing the practice of issuing job quotes; and (3) restrict supply through downtime and limit order fulfillment. The alleged classes are all persons who purchased gypsum board and/or gypsum finishing products directly or indirectly from any defendant and the conspiracy is alleged to have commenced on or before either September 2011 or January 2008. The complainants seek to recover unspecified treble actual damages and attorneys' fees on behalf of the purported classes. On April 8, 2013, the Judicial Panel on Multidistrict Litigation ordered transfer of all pending cases to E.D. PA for coordinated and consolidated pretrial proceedings, and the direct purchaser plaintiffs and indirect purchaser plaintiffs filed their respective amended consolidated complaints in June 2013. The amended consolidated complaints allege a conspiracy or agreement beginning in or before September 2011. The Company disputes the allegations made and intends to vigorously defend the consolidated action. Because the cases are in preliminary stages, we are unable to predict an outcome or estimate a range of reasonably possible loss. However, we do not believe that any loss is probable.

**Guaranty Bank:** As we have previously disclosed, Temple-Inland was named as a defendant in a lawsuit filed in August 2011 in the United States District Court for the Northern District of Texas captioned *Tepper v. Temple-Inland Inc.* This lawsuit was brought by the liquidation trustee for Guaranty Financial Group, Inc., Temple-Inland's former financial services business which was spun off by Temple-Inland in 2007, on behalf of certain creditors of the business. The lawsuit alleged, among other things, that Temple-Inland and certain of its affiliates, officers, and directors caused the failure of Guaranty Financial Group and its wholly-owned subsidiary Guaranty Bank and asserted various claims related to the failure. In October 2012, the Company entered into a settlement with the liquidation trustee and the Federal Deposit Insurance Corporation (FDIC) to resolve this litigation. The settlement, which has been approved by the bankruptcy court, resolved all claims related to the spin-off and subsequent failure of Guaranty Bank that have been or could be asserted by the trustee or the FDIC, in its capacity as Receiver of Guaranty Bank, against Temple-Inland and its affiliates or any of its former officers, directors or employees. In exchange for this full release from liability, Temple-Inland agreed to release certain bankruptcy-related claims it and other defendants asserted in the Guaranty Financial Group bankruptcy, and to make \$80 million in payments (\$38 million to the trustee and \$42 million to the FDIC) (the Settlement Amount), a portion of which will be tax deductible. In December 2012, the settlement was closed and the Settlement Amount was paid and releases were exchanged. Pursuant to a settlement reached with its insurers, the Company was reimbursed \$30 million of the Settlement Amount in the second quarter of 2013, and expects to recover a significant portion of defense costs incurred.

Temple-Inland is also a defendant in a lawsuit captioned *North Port Firefighters' Pension v. Temple-Inland Inc.*, filed in November 2011 in the United States District Court for the Northern District of Texas and subsequently amended. The lawsuit alleges a class action against Temple-Inland and certain individual defendants contending that Temple-Inland and certain individual defendants misrepresented the financial condition of Guaranty Financial Group during the period December 12, 2007 through August 24, 2009. Temple-Inland distributed the stock of Guaranty Financial Group to its shareholders on December 28, 2007, after which Guaranty Financial Group was an independent, publicly held company. The action is pled as a securities claim on behalf of persons who acquired Guaranty Financial Group stock during the putative class period. Although focused chiefly on statements made by Guaranty Financial Group to its shareholders after it was an independent, publicly held company, the action repeats many of the same allegations of fact made in the *Tepper* litigation. On June 20, 2012, all defendants in the lawsuit filed motions to dismiss the amended complaint. On March 28, 2013, the district court granted Temple-Inland's and the individual defendants' motions to dismiss without prejudice. The plaintiff must first seek the court's leave prior to filing any amended complaint against the Company. On July 30, 2013, the district court dismissed the Second Amended Complaint filed against the individual defendants with prejudice, also noting that since the plaintiff did not seek the court's leave to amend their complaint with respect to the claims against Temple-Inland, all claims against Temple-Inland were dismissed with prejudice.

Each of the individual defendants in both the Tepper litigation and the North Port litigation has requested advancement of their costs of defense from Temple-Inland and has asserted a right to indemnification by Temple-Inland. We believe that all or part of these defense costs would be covered losses under Temple-Inland's directors and officers insurance. The carriers under the applicable policies have been notified of the claims and each has responded with a reservation of rights letter.

Tax: The Company is currently being challenged by Brazilian tax authorities concerning the statute of limitations related to the use of certain tax credits. The Company is appealing an unfavorable March 2012 administrative court ruling. The potential loss to the Company in the event of a final unfavorable outcome is approximately \$29 million.

General: The Company is involved in various other inquiries, administrative proceedings and litigation relating to environmental and safety matters, labor and employment, contracts, sales of property, personal injury, property damage and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has the element of uncertainty, the Company believes that the outcome of any of the lawsuits or claims that are pending or threatened or all of

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them combined (other than those that cannot be assessed due to their preliminary nature) will not have a material effect on its consolidated financial statements.

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

**Variable Interest Entities**

In connection with the 2006 sale of approximately 5.6 million acres of forestlands, International Paper received installment notes (the Timber Notes) totaling approximately \$4.8 billion. The Timber Notes, which do not require principal payments prior to their August 2016 maturity, are supported by irrevocable letters of credit obtained by the buyers of the forestlands.

During 2006, International Paper contributed the Timber Notes to newly formed entities (the Borrower Entities) in exchange for Class A and Class B interests in these entities. Subsequently, International Paper contributed its \$200 million Class A interests in the Borrower Entities, along with approximately \$400 million of International Paper promissory notes, to other newly formed entities (the Investor Entities, and together with the Borrower Entities, the Entities) in exchange for Class A and Class B interests in these entities, and simultaneously sold its Class A interest in the Investor Entities to a third party investor. As a result, at December 31, 2006, International Paper held Class B interests in the Borrower Entities and Class B interests in the Investor Entities valued at approximately \$5.0 billion. International Paper did not provide any financial support that was not previously contractually required for the six months ended June 30, 2013 and the year ended December 31, 2012.

Following the 2006 sale of forestlands and creation of the Entities discussed above, the Timber Notes were used as collateral for borrowings from third party lenders, which effectively monetized the Timber Notes. Provisions of certain loan agreements require any bank issuing letters of credit supporting the Timber Notes to maintain a credit rating at or above a specified threshold. In the event the credit rating of a letter of credit bank is downgraded below the specified threshold, the letters of credit must be replaced within 60 days with letters of credit from a qualifying financial institution or for one of the letter of credit banks, collateral must be posted. The Company, retained to provide management services for the third-party entities that hold the Timber Notes, has, as required by the loan agreements, successfully replaced banks that fell below the specified threshold.

Also during 2006, the Entities acquired approximately \$4.8 billion of International Paper debt obligations for cash, resulting in a total of approximately \$5.2 billion of International Paper debt obligations held by the Entities at December 31, 2006. The various agreements entered into in connection with these transactions provide that International Paper has, and intends to affect, a legal right to offset its obligation under these debt instruments with its investments in the Entities. Accordingly, for financial reporting purposes, International Paper has offset approximately \$5.2 billion of Class B interests in the Entities against \$5.3 billion of International Paper debt obligations held by these Entities at June 30, 2013 and December 31, 2012. Despite the offset treatment, these remain debt obligations of International Paper. Remaining borrowings of \$74 million and \$79 million at June 30, 2013 and December 31, 2012, respectively, are included in Long-term debt in the accompanying consolidated balance sheet. Additional debt related to the above transaction of \$79 million is included in Notes payable and current maturities of long-term debt at June 30, 2013 and December 31, 2012.

On October 7, 2011, Moody's Investor Services reduced its credit rating of senior unsecured long-term debt of the Royal Bank of Scotland Group Plc, which issued letters of credit that support \$1.6 billion of Timber Notes, below the specified threshold. On November 22, 2011, letters of credit worth \$707 million were replaced by another qualifying institution. The Company and the third party managing member agreed to extend the 60 day deadline, and then, on February 10, 2012, letters of credit worth \$135 million were replaced by another qualifying institution. Fees of \$5 million were incurred in connection with these replacements. The Company and the third party managing member instituted a replacement waiver for the remaining \$797 million, and then on July 25, 2012, these letters of credit were successfully replaced by another qualifying institution. In the event the credit rating of the letter of credit bank is downgraded below a specified threshold, the new bank is required to provide credit support for its obligation. Fees of \$5 million were incurred in connection with this replacement.

On January 23, 2012, Standard and Poor's reduced its credit rating of senior unsecured long-term debt of Société Générale SA, which issued letters of credit that support \$666 million of the Timber Notes, below the specified threshold. The letters of credit were successfully replaced by another qualifying institution. Fees of \$5 million were

incurred in connection with this replacement.

On June 21, 2012, Moody's Investor Services reduced its credit rating of senior unsecured long-term debt of BNP Paribas, which issued letters of credit that support \$707 million of Timber Notes, below the specified threshold. On December 19, 2012, the Company and the third-party managing member agreed to a continuing replacement waiver for these letters of credit, terminable upon 30 days notice.

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Activity between the Company and the Entities was as follows:

| In millions       | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|-------------------|--------------------------------|------|------------------------------|------|
|                   | 2013                           | 2012 | 2013                         | 2012 |
| Revenue (a)       | \$11                           | \$12 | \$24                         | \$20 |
| Expense (a)       | 19                             | 20   | 41                           | 40   |
| Cash receipts (b) | —                              | —    | 19                           | 15   |
| Cash payments (c) | —                              | —    | 45                           | 40   |

(a) The net expense related to the Company's interest in the Entities is included in the accompanying consolidated statement of operations, as International Paper has and intends to affect its legal right to offset as discussed above.

(b) The cash receipts are equity distributions from the Entities to International Paper.

(c) The semi-annual payments are related to interest on the associated debt obligations discussed above.

Based on an analysis of the Entities discussed above under guidance that considers the potential magnitude of the variability in the structures and which party has a controlling financial interest, International Paper determined that it is not the primary beneficiary of the Entities, and therefore, does not consolidate its investments in these entities. It was also determined that the source of variability in the structures is the value of the Timber Notes, the assets most significantly impacting the structure's economic performance. The credit quality of the Timber Notes is supported by irrevocable letters of credit obtained by third party buyers which are 100% cash collateralized. International Paper analyzed which party has control over the economic performance of each entity, and concluded International Paper does not have control over significant decisions surrounding the Timber Notes and letters of credit and therefore is not the primary beneficiary. The Company's maximum exposure to loss equals the value of the Timber Notes; however, an analysis performed by the Company concluded the likelihood of this exposure is remote.

International Paper also held a variable interest in financing entities that were used to monetize long-term notes received from the sale of forestlands in 2002. International Paper transferred notes (the Monetized Notes, with an original maturity of 10 years from inception) and cash having a value of approximately \$500 million to the entities in exchange for preferred interests, and accounted for the transfers as a sale of the notes with no associated gain or loss. In the same period, the entities acquired approximately \$500 million of International Paper debt obligations for cash. International Paper has no obligation to make any further capital contributions to these entities and did not provide any financial support that was not previously contractually required during the six months ended June 30, 2013 and the year ended December 31, 2012.

On May 31, 2011, the third party equity holder of the 2002 financing entities retired its Class A interest in the entities for \$51 million. As a result of the retirement, effective May 31, 2011, International Paper owns 100% of the 2002 financing entities. Based on an analysis performed by the Company after the retirement, under guidance that considers the potential magnitude of the variability in the structure and which party has a controlling financial interest, International Paper determined that it is the primary beneficiary of the 2002 financing entities and thus consolidated the entities effective May 31, 2011. During 2011, approximately \$191 million of the 2002 Monetized Notes matured. During the six months ended June 30, 2012, approximately \$252 million of the 2002 Monetized Notes matured. Cash receipts upon maturity were used to pay the associated debt obligations. Effective June 1, 2012, International Paper liquidated its interest in the 2002 financing entities.

The use of the above entities facilitated the monetization of the credit enhanced Timber and Monetized Notes in a cost effective manner by increasing the borrowing capacity and lowering the interest rate while continuing to preserve the tax deferral that resulted from the forestlands installment sales and the offset accounting treatment described above. In connection with the acquisition of Temple-Inland in February 2012, two special purpose entities became wholly-owned subsidiaries of International Paper.

In October 2007, Temple-Inland sold 1.55 million acres of timberland for \$2.38 billion. The total consideration consisted almost entirely of notes due in 2027 issued by the buyer of the timberland, which Temple-Inland contributed to two wholly-owned, bankruptcy-remote special purpose entities. The notes are shown in Financial assets of special purpose entities in the accompanying consolidated balance sheet and are supported by \$2.38 billion of irrevocable

letters of credit issued by three banks, which are required to maintain minimum credit ratings on their long-term debt. In the third quarter of 2012, International Paper completed its preliminary analysis of the acquisition date fair value of the notes and determined it to be \$2.09 billion. As a result of this analysis, Financial assets of special purpose entities decreased by \$292 million and Goodwill increased by the same amount. As of June 30, 2013, the fair value of the notes was \$2.42 billion.

In December 2007, Temple-Inland's two wholly-owned special purpose entities borrowed \$2.14 billion shown in Nonrecourse financial liabilities of special purpose entities. The loans are repayable in 2027 and are secured only by the \$2.38 billion of

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notes and the irrevocable letters of credit securing the notes and are nonrecourse to us. The loan agreements provide that if a credit rating of any of the banks issuing the letters of credit is downgraded below the specified threshold, the letters of credit issued by that bank must be replaced within 30 days with letters of credit from another qualifying financial institution. In the third quarter of 2012, International Paper completed its preliminary analysis of the acquisition date fair value of the borrowings and determined it to be \$2.03 billion. As a result of this analysis, Nonrecourse financial liabilities of special purpose entities decreased by \$110 million and Goodwill decreased by the same amount. As of June 30, 2013, the fair value of this debt was \$2.31 billion.

On January 23, 2012, Standard and Poor's reduced its credit rating of senior unsecured long-term debt of Société Générale SA, which issued letters of credit that support \$506 million of the 2007 Monetized Notes, below the specific threshold. These letters of credit were successfully replaced by another qualifying institution. Fees of \$2 million were incurred in connection with this replacement.

On June 21, 2012, Moody's Investor Services reduced its credit rating of senior unsecured long-term debt of Barclays Bank PLC, which issued letters of credit that support approximately \$500 million of the 2007 Monetized Notes, below the specified threshold. These letters of credit were successfully replaced by another qualifying institution. Fees of \$6 million were incurred in connection with this replacement.

Activity between the Company and the 2007 financing entities was as follows:

| In millions       | Three Months Ended |      | Six Months Ended |      |
|-------------------|--------------------|------|------------------|------|
|                   | June 30,           | 2012 | June 30,         | 2012 |
| Revenue (a)       | \$7                | \$4  | \$14             | \$6  |
| Expense (b)       | 7                  | 5    | 15               | 9    |
| Cash receipts (c) | 2                  | 4    | 4                | 7    |
| Cash payments (d) | 5                  | 5    | 11               | 10   |

The revenue is included in Interest expense, net in the accompanying consolidated statement of operations and (a) includes \$9 million of accretion income for the amortization of the purchase accounting adjustment on the Financial assets of special purpose entities.

The expense is included in Interest expense, net in the accompanying consolidated statement of operations and (b) includes \$3 million of accretion expense for the amortization of the purchase accounting adjustment on the Nonrecourse financial liabilities of special purpose entities.

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

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

#### Preferred Securities of Subsidiaries

In March 2003, Southeast Timber, Inc. (Southeast Timber), a consolidated subsidiary of International Paper, issued \$150 million of preferred securities to a private investor with future dividend payments based on LIBOR. Southeast Timber, which through a subsidiary initially held approximately 1.5 million acres of forestlands in the southern United States, was International Paper's primary vehicle for sales of southern forestlands. As of June 30, 2013, substantially all of these forestlands have been sold. On March 27, 2013, Southeast Timber redeemed its Class A common shares owned by the private investor for \$150 million. As a result, Noncontrolling interests decreased by \$150 million in the accompanying consolidated balance sheet. Distributions paid to the third-party investor were \$1 million and \$3 million for the six months ended June 30, 2013 and 2012, respectively. The expense related to these preferred securities is shown in Net earnings (loss) attributable to noncontrolling interests in the accompanying consolidated statement of operations.

#### NOTE 14 - DEBT

Amounts related to early debt extinguishment during the three months and six months ended June 30, 2013 and 2012 were as follows:

| In millions | Three Months Ended |      | Six Months Ended |      |
|-------------|--------------------|------|------------------|------|
|             | June 30,           | 2012 | June 30,         | 2012 |
|             | 2013               |      | 2013             |      |

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|                                             |      |       |      |       |
|---------------------------------------------|------|-------|------|-------|
| Early debt reductions (a)                   | \$32 | \$406 | \$58 | \$436 |
| Pre-tax early debt extinguishment costs (b) | 3    | 10    | 9    | 26    |

Reductions related to notes with interest rates ranging from 5.20% to 7.95% with original maturities from 2018 to 2027 and from 1.63% to 7.95% with original maturities from 2017 to 2018 for the three months ended June 30, (a) 2013 and 2012, respectively, and 5.20% to 7.95% with original maturities from 2014 to 2027 and from 1.63% to 7.95% with original maturities from 2012 to 2018 for the six months ended June 30, 2013 and June 30, 2012, respectively.

(b) Amounts are included in Restructuring and Other Charges in the accompanying consolidated statements of operations.

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In February 2012, International Paper borrowed \$1.2 billion under a term loan with an initial interest rate of LIBOR plus a margin of 138 basis points that varied depending on the credit rating of the Company and entered into a \$200 million term loan with an interest rate of LIBOR plus a margin of 175 basis points, both with maturity dates in 2017. The proceeds from these borrowings were used, along with available cash, to fund the acquisition of Temple-Inland. During 2012, International Paper fully repaid the \$1.2 billion term loan.

Subsequent to June 30, 2013, International Paper made early debt repayments of approximately \$98 million with interest rates ranging from 5.45% to 6.45% with original maturities from 2022 to 2033. On July 19, 2013, International Paper, elected to redeem, on August 20, 2013, a \$300 million note with an interest rate of 7.40% and original maturity in 2014. International Paper estimates early debt extinguishment costs are expected to be approximately \$17 million.

At June 30, 2013, the fair value of International Paper's \$10.1 billion of debt was approximately \$11.5 billion. The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues. International Paper's long-term debt is classified as Level 2 within the fair value hierarchy, which is further defined in Note 12 in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Maintaining an investment-grade credit rating is an important element of International Paper's financing strategy. At June 30, 2013, the Company held long-term credit ratings of BBB (stable outlook) and Baa3 (stable outlook) by S&P and Moody's, respectively.

**NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES**

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

For detailed information regarding the Company's hedging activities and related accounting, refer to Note 13 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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

| In millions                                                                | June 30,<br>2013 | December 31,<br>2012 |     |
|----------------------------------------------------------------------------|------------------|----------------------|-----|
| <b>Derivatives in Cash Flow Hedging Relationships:</b>                     |                  |                      |     |
| Foreign exchange contracts (Sell / Buy; denominated in sell notional): (a) |                  |                      |     |
| Brazilian real / U.S. dollar - Forward                                     | 585              | —                    |     |
| British pounds / Brazilian real – Forward                                  | 4                | 13                   |     |
| European euro / Brazilian real – Forward                                   | 22               | 13                   |     |
| European euro / Polish zloty – Forward                                     | 146              | 149                  |     |
| U.S. dollar / Brazilian real – Forward                                     | 390              | 238                  |     |
| U.S. dollar / Brazilian real – Zero-cost collar                            | 18               | 18                   |     |
| <b>Derivatives Not Designated as Hedging Instruments:</b>                  |                  |                      |     |
| Embedded derivative (in USD)                                               | —                | 150                  |     |
| Foreign exchange contracts (Sell / Buy; denominated in sell notional): (b) |                  |                      |     |
| Indian rupee / U.S. dollar                                                 | 40               | 140                  |     |
| Thai baht / U.S. dollar                                                    | 36               | 261                  |     |
| U.S. dollar / Turkish lira                                                 | —                | 56                   |     |
| Interest rate contracts (in USD)                                           | —                | 150                  | (c) |

(a) These contracts had maturities of three years or less as of June 30, 2013.

(b) These contracts had maturities of one year or less as of June 30, 2013.

(c) Includes \$150 million floating-to-fixed interest rate swap notional to offset the embedded derivative.

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

|                            | Gain (Loss)<br>Recognized in<br>AOCI<br>on Derivatives<br>(Effective Portion) |         |                              |       |
|----------------------------|-------------------------------------------------------------------------------|---------|------------------------------|-------|
|                            | Three Months Ended<br>June 30,                                                |         | Six Months Ended<br>June 30, |       |
| In millions                | 2013                                                                          | 2012    | 2013                         | 2012  |
| Foreign exchange contracts | \$(15                                                                         | ) \$(21 | ) \$(10                      | ) \$7 |
| Natural gas contracts      | —                                                                             | —       | —                            | (1    |
| Total                      | \$(15                                                                         | ) \$(21 | ) \$(10                      | ) \$6 |

During the next 12 months, the amount of the June 30, 2013 AOCI balance, after tax, that is expected to be reclassified to earnings is a loss of \$10 million.

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

|                                                           | Gain (Loss)<br>Reclassified from<br>AOCI<br>(Effective Portion) |      |                              |       | Location of Gain (Loss)<br>Reclassified from<br>AOCI<br>(Effective Portion) |
|-----------------------------------------------------------|-----------------------------------------------------------------|------|------------------------------|-------|-----------------------------------------------------------------------------|
|                                                           | Three Months<br>Ended<br>June 30,                               |      | Six Months Ended<br>June 30, |       |                                                                             |
| In millions                                               | 2013                                                            | 2012 | 2013                         | 2012  |                                                                             |
| <b>Derivatives in Cash Flow Hedging Relationships:</b>    |                                                                 |      |                              |       |                                                                             |
| Foreign exchange contracts                                | \$12                                                            | \$(7 | ) \$9                        | \$(7  | ) Cost of products sold                                                     |
| Natural gas contracts                                     | —                                                               | (2   | ) —                          | (6    | ) Cost of products sold                                                     |
| Total                                                     | \$12                                                            | \$(9 | ) \$9                        | \$(13 | )                                                                           |
|                                                           | Gain (Loss) Recognized                                          |      |                              |       | Location of Gain (Loss)<br>In Consolidated<br>Statement<br>of Operations    |
|                                                           | Three Months<br>Ended<br>June 30,                               |      | Six Months Ended<br>June 30, |       |                                                                             |
| In millions                                               | 2013                                                            | 2012 | 2013                         | 2012  |                                                                             |
| <b>Derivatives Not Designated as Hedging Instruments:</b> |                                                                 |      |                              |       |                                                                             |
| Electricity contract                                      | \$—                                                             | \$—  | \$2                          | \$(3  | ) Cost of products sold                                                     |
| Embedded Derivatives                                      | —                                                               | (1   | ) (1                         | ) (2  | ) Interest expense, net                                                     |
| Foreign exchange contracts                                | (1                                                              | ) 2  | (5                           | ) (2  | ) Cost of products sold                                                     |
| Interest rate contracts                                   | 5                                                               | 6    | 10                           | 11    | Interest expense, net                                                       |
| Total                                                     | \$4                                                             | \$7  | \$6                          | \$4   |                                                                             |

#### Fair Value Measurements

For a discussion of the Company's fair value measurement policies under the fair value hierarchy, refer to Note 13 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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



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

## Fair Value Measurements

## Level 2 – Significant Other Observable Inputs

| In millions                                             | Assets           |                      | Liabilities      |                      |     |
|---------------------------------------------------------|------------------|----------------------|------------------|----------------------|-----|
|                                                         | June 30,<br>2013 | December 31,<br>2012 | June 30,<br>2013 | December 31,<br>2012 |     |
| Derivatives designated as hedging instruments           |                  |                      |                  |                      |     |
| Foreign exchange contracts – cash flow                  | \$25             | (a) \$7              | (c) \$44         | (d) \$21             | (e) |
| Total derivatives designated as hedging instruments     | \$25             | \$7                  | \$44             | \$21                 |     |
| Derivatives not designated as hedging instruments       |                  |                      |                  |                      |     |
| Electricity contract                                    | \$1              | (b) \$—              | \$—              | \$1                  | (f) |
| Embedded derivatives                                    | —                | 1                    | (b) —            | —                    |     |
| Foreign exchange contracts                              | —                | 1                    | (b) —            | —                    |     |
| Interest rate contracts                                 | —                | —                    | —                | 1                    | (f) |
| Total derivatives not designated as hedging instruments | \$1              | \$2                  | \$—              | \$2                  |     |
| Total derivatives                                       | \$26             | \$9                  | \$44             | \$23                 |     |

(a) Includes \$8 million recorded in Other current assets and \$17 million recorded in Deferred charges and other assets in the accompanying consolidated balance sheet.

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

(c) Includes \$3 million recorded in Other current assets and \$4 million recorded in Deferred charges and other assets in the accompanying consolidated balance sheet.

(d) Includes \$26 million recorded in Other accrued liabilities and \$18 million recorded in Other liabilities in the accompanying consolidated balance sheet.

(e) Includes \$20 million recorded in Other accrued liabilities and \$1 million recorded in Other liabilities in the accompanying consolidated balance sheet.

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

The above contracts are subject to enforceable master netting arrangements that provide rights of offset with each counterparty when amounts are payable on the same date in the same currency or in the case of certain specified defaults. Management has made an accounting policy election to not offset the fair value of recognized derivative assets and derivative liabilities in the consolidated balance sheet. The amounts owed to the counterparties and owed to the Company are considered immaterial with respect to each counterparty and in the aggregate with all counterparties.

## Credit-Risk-Related Contingent Features

Certain of the Company's financial instruments used in hedging transactions are governed by standard credit support arrangements with counterparties. If the lower of the Company's credit rating by Moody's or S&P were to drop below investment grade, the Company would be required to post collateral for all of its derivatives in a net liability position, although no derivatives would terminate. The fair values of derivative instruments containing credit risk-related contingent features in a net liability position were \$2 million and \$18 million as of June 30, 2013 and December 31, 2012, respectively. The Company was not required to post any collateral as of June 30, 2013 or December 31, 2012. For more information on credit-risk-related contingent features, refer to Note 13 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

## NOTE 16 - RETIREMENT PLANS

International Paper sponsors and maintains the Retirement Plan of International Paper Company (the "Pension Plan"), a tax-qualified defined benefit pension plan that provides retirement benefits to substantially all U.S. salaried employees

and hourly employees (receiving salaried benefits) hired prior to July 1, 2004, and substantially all other U.S. hourly and union employees who work at a participating business unit regardless of hire date. These employees generally are eligible to participate in the Pension Plan upon attaining 21 years of age and completing one year of eligibility service. U.S. salaried employees and hourly employees (receiving salaried benefits) hired after June 30, 2004, are not eligible for the Pension Plan, but receive a company contribution to their individual savings plan accounts.

The Pension Plan provides defined pension benefits based on years of credited service and either final average earnings (salaried employees and hourly employees receiving salaried benefits), hourly job rates or specified benefit rates (hourly and union employees). A detailed discussion of these plans is presented in Note 15 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

In connection with the Temple-Inland acquisition in February 2012, International Paper assumed administrative responsibility for the Temple-Inland Retirement Plan, a defined benefit plan which covers substantially all employees of Temple-Inland.

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

|                                    | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|------------------------------------|--------------------------------|-------|------------------------------|-------|
| In millions                        | 2013                           | 2012  | 2013                         | 2012  |
| Service cost                       | \$47                           | \$37  | \$95                         | \$75  |
| Interest cost                      | 143                            | 153   | 287                          | 298   |
| Expected return on plan assets     | (182)                          | (189) | (364)                        | (373) |
| Actuarial loss                     | 122                            | 78    | 244                          | 154   |
| Amortization of prior service cost | 9                              | 8     | 17                           | 16    |
| Net periodic pension expense       | \$139                          | \$87  | \$279                        | \$170 |

The Company's funding policy for our pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plan, tax deductibility, the cash flows generated by the Company, and other factors. The Company made a cash contribution of \$31 million to the Pension Plan in the second quarter of 2013. The Company continually reassesses the amount and timing of any discretionary contributions and could elect to make an additional contribution in 2013. The nonqualified defined benefit plans are funded to the extent of benefit payments, which totaled \$9 million for the six months ended June 30, 2013.

**NOTE 17 - STOCK-BASED COMPENSATION**

International Paper has an Incentive Compensation Plan (ICP) which is administered by the Management Development and Compensation Committee of the Board of Directors (the Committee). The ICP authorizes the grants of restricted stock, restricted or deferred stock units, performance awards payable in cash or stock upon the attainment of specified performance goals, dividend equivalents, stock options, stock appreciation rights, other stock-based awards and cash-based awards in the discretion of the Committee. A detailed discussion of the ICP, including the stock option program and executive continuity award program that provided for tandem grants of restricted stock and stock options, is presented in Note 17 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. As of June 30, 2013, 17.6 million shares were available for grant under the ICP.

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

|                                                                     | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|---------------------------------------------------------------------|--------------------------------|------|------------------------------|------|
| In millions                                                         | 2013                           | 2012 | 2013                         | 2012 |
| Total stock-based compensation expense (selling and administrative) | \$31                           | \$13 | \$71                         | \$44 |
| Income tax benefits related to stock-based compensation             | 8                              | —    | 67                           | 40   |

At June 30, 2013, \$165 million, net of estimated forfeitures, of compensation cost related to unvested restricted performance shares, executive continuity awards and restricted stock attributable to future service had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 1.9 years.

**Performance Share Plan**

Under the Performance Share Plan (PSP), awards are granted by the Committee to approximately 1,300 employees. Awards are earned based on the Company's performance achievement in relative return on investment (ROI) and total shareholder return (TSR) compared to peer groups. Awards are weighted 75% for ROI and 25% for TSR for all participants except for officers for whom awards are weighted 50% for ROI and 50% for TSR. The ROI component of the PSP awards is valued at the closing stock price on the day prior to the grant date. As the ROI component contains a performance condition, compensation expense, net of estimated forfeitures, is recorded over the requisite service period based on the most probable number of awards expected to vest. The TSR component of the PSP awards is valued using a Monte Carlo simulation as the TSR component contains a market condition. The Monte Carlo simulation estimates the fair value of the TSR component based on the expected term of the award, the risk-free rate, expected dividends, and the expected volatility for the Company and its competitors. The expected term was estimated based on the vesting period of the awards, the risk-free rate was based on the yield on U.S. Treasury securities matching the vesting period and the volatility was based on the Company's historical volatility over the expected term.

Beginning with the 2011 PSP, grants will be made in performance-based restricted stock units (PSU's). The PSP will continue to be paid in unrestricted shares of Company stock.

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PSP awards issued to certain members of senior management are liability awards, which are required to be remeasured at fair value at each balance sheet date. The valuation of these PSP liability awards is computed based on the same methodology as other PSP awards.

The following table sets forth the assumptions used to determine compensation cost for the market condition component of the PSP plan:

|                         | Three Months Ended |                    | Six Months Ended   |                    |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
|                         | June 30,           |                    | June 30,           |                    |
|                         | 2013               | 2012               | 2013               | 2012               |
| Expected volatility     | 25.25% -<br>62.58% | 24.75% -<br>55.33% | 25.25% -<br>62.58% | 24.75% -<br>55.33% |
| Risk-free interest rate | 0.20% - 0.99%      | 0.12% - 0.42%      | 0.20% -<br>0.99%   | 0.12% - 0.42%      |

The following summarizes the activity for PSP for the six months ended June 30, 2013:

|                                  | Nonvested<br>Shares / Units | Weighted Average<br>Grant Date<br>Fair Value |
|----------------------------------|-----------------------------|----------------------------------------------|
| Outstanding at December 31, 2012 | 8,660,855                   | \$ 28.37                                     |
| Granted                          | 3,148,445                   | 40.76                                        |
| Shares Issued (a)                | (3,057,113 )                | 32.59                                        |
| Forfeited                        | (217,773 )                  | 34.42                                        |
| Outstanding at June 30, 2013     | 8,534,414                   | \$ 31.28                                     |

(a) Includes 150,895 units held for payout at the end of the performance period.

#### Stock Option Program

The Company discontinued its stock option program in 2004 for members of executive management, and in 2005 for all other eligible U.S. and non-U.S. employees. Shares granted in 2013 represent replacement options from a stock swap.

A summary of option activity under the plan as of June 30, 2013 is presented below:

|                                  | Options      | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining Life<br>(years) | Aggregate<br>Intrinsic<br>Value<br>(thousands) |
|----------------------------------|--------------|---------------------------------------|--------------------------------------------------|------------------------------------------------|
| Outstanding at December 31, 2012 | 9,136,060    | \$38.79                               |                                                  |                                                |
| Granted                          | 2,853        | 48.06                                 |                                                  |                                                |
| Exercised                        | (6,003,442 ) | 38.40                                 |                                                  |                                                |
| Expired                          | (66,437 )    | 36.93                                 |                                                  |                                                |
| Outstanding at June 30, 2013     | 3,069,034    | \$39.60                               | 0.96                                             | \$14,466                                       |

All options were fully vested and exercisable as of June 30, 2013.

#### Executive Continuity and Restricted Stock Award Program

The following summarizes the activity of the Executive Continuity and Restricted Stock Award Program for the six months ended June 30, 2013:

|                                  | Nonvested<br>Shares | Weighted Average<br>Grant Date<br>Fair Value |
|----------------------------------|---------------------|----------------------------------------------|
| Outstanding at December 31, 2012 | 151,549             | \$ 30.49                                     |
| Granted                          | 44,000              | 42.79                                        |
| Shares Issued                    | (65,191 )           | 33.48                                        |
| Forfeited                        | (17,500 )           | 37.75                                        |
| Outstanding at June 30, 2013     | 112,858             | \$ 32.43                                     |



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## NOTE 18 - INDUSTRY SEGMENT INFORMATION

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

The Company also has a 50% equity interest in Ilim in Russia that is a separate reportable industry segment.

Sales by industry segment for the three months and six months ended June 30, 2013 and 2012 were as follows:

|                                  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |          |
|----------------------------------|--------------------------------|---------|------------------------------|----------|
| In millions                      | 2013                           | 2012    | 2013                         | 2012     |
| Industrial Packaging             | \$3,780                        | \$3,450 | \$7,340                      | \$6,565  |
| Printing Papers                  | 1,540                          | 1,510   | 3,080                        | 3,070    |
| Consumer Packaging               | 855                            | 780     | 1,685                        | 1,590    |
| Distribution                     | 1,405                          | 1,500   | 2,790                        | 2,975    |
| Corporate and Intersegment Sales | (245 )                         | (163 )  | (470 )                       | (468 )   |
| Net Sales                        | \$7,335                        | \$7,077 | \$14,425                     | \$13,732 |

Operating profit by industry segment for the three months and six months ended June 30, 2013 and 2012 were as follows:

|                                                                                    | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|------------------------------------------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
| In millions                                                                        | 2013                           | 2012      | 2013                         | 2012      |
| Industrial Packaging                                                               | \$474 (a)                      | \$260 (e) | 829 (a)                      | \$475 (e) |
| Printing Papers                                                                    | 76 (f)                         | 104 (f)   | 225 (f)                      | 250 (f)   |
| Consumer Packaging                                                                 | 51 (b)                         | 57 (g)    | 58 (b)                       | 160 (g)   |
| Distribution                                                                       | — (c)                          | 5 (h)     | (5 ) (c)                     | 3 (h)     |
| Operating Profit                                                                   | 601                            | 426       | \$1,107                      | 888       |
| Interest expense, net                                                              | (168 )                         | (172 )    | (332 ) (d)                   | (340 )    |
| Noncontrolling interests/equity earnings adjustment (i)                            | 4                              | 4         | 4                            | 8         |
| Corporate items, net                                                               | —                              | (3 )      | (22 )                        | (35 )     |
| Restructuring and other charges                                                    | 9                              | (9 )      | 3                            | (25 )     |
| Non-operating pension expense                                                      | (83 )                          | (42 )     | (167 )                       | (79 )     |
| Earnings (loss) from continuing operations before income taxes and equity earnings | \$363                          | \$204     | \$593                        | \$417     |
| Equity earnings (loss), net of taxes – Ilim                                        | \$(34 )                        | \$(25 )   | \$(45 )                      | \$15      |

(a) Includes charges of \$14 million for the three months ended June 30, 2013 and \$26 million for the six months ended June 30, 2013 for the integration costs associated with the acquisition of Temple-Inland, gains of \$13 million for the three months ended June 30, 2013 and \$14 million for the six months ended June 30, 2013 for a bargain purchase adjustment on the first quarter 2013 acquisition of a majority share of our operations in Turkey, and charges of \$2 million for the three months ended June 30, 2013 and \$5 million for the six months ended June 30, 2013 for other items.

(b) Includes charges of \$1 million for the three months ended June 30, 2013 and \$45 million for the six months ended June 30, 2013 for costs associated with the permanent shutdown of a paper machine at our Augusta, Georgia mill.

(c) Includes charges of \$17 million for the three months ended June 30, 2013 and \$24 million for the six months ended June 30, 2013 for costs associated with the restructuring of the Company's xpedx operations.

(d) Includes a gain of \$6 million for interest related to the settlement of an IRS tax audit.

(e) Includes a charge of \$62 million for the three months and six months ended June 30, 2012 to adjust the value of the long-lived assets of the Hueneme mill in Oxnard, California to their fair value in anticipation of its divestiture, charges of \$35 million for the three months ended June 30, 2012 and \$78 million for the six months ended June 30,

2012 for integration costs associated with the Temple-Inland acquisition, charges of \$9 million for the three months and six months ended June 30, 2012 for costs associated with the announced third quarter 2012 divestiture of the Hueneme mill and two other containerboard mills, a charge of \$1 million for the three months and six months ended June 30, 2012 related to the closure of the Etienne mill in France, and a charge of \$20 million for the six months ended June 30, 2012 related to the write-up of the Temple-Inland inventory to fair value.

- (f) Includes a loss of \$2 million for the three months ended June 30, 2012 and a loss of \$1 million for the six months ended June 30, 2012 related to the acquisition of the majority interest in Andhra Pradesh Paper Mills Limited.
- (g) Includes a loss of \$6 million for the three months ended June 30, 2012 and a gain of \$1 million for the six months ended June 30, 2012 for adjustments related to the sale of the Shorewood business.
- (h) Includes charges of \$12 million for the three months ended June 30, 2012 and \$33 million for the six months ended June 30, 2012 for costs associated with the restructuring of the Company's xpedx operation.

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

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

## EXECUTIVE SUMMARY

International Paper generated Operating Earnings per share attributable to International Paper common shareholders of \$0.64 in the second quarter of 2013, compared with 2013 first-quarter earnings of \$0.65 and 2012 second-quarter earnings of \$0.53. Diluted earnings per share attributable to International Paper common shareholders were \$0.57 in the second quarter of 2013, compared with \$0.71 in the first quarter of 2013 and \$0.31 in the second quarter of 2012. We delivered strong results in the 2013 second quarter, particularly in our Industrial Packaging segment which overall benefited from increased prices and seasonally higher volumes. Our 2013 second quarter results also reflect the positive results generated by our Consumer Packaging segment as well our Brazil and European/Russian paper businesses. The 2013 second quarter includes the negative impact of a significant bad debt charge along with the non-cash impact of unfavorable foreign currency movements impacting the Ilim joint venture's results.

Volumes during the 2013 second quarter were higher compared with the 2013 first quarter largely due to seasonal volume increases in Industrial Packaging but also reflecting increased volumes in Consumer Packaging and the Brazil paper business. Price realizations averaged higher than the previous quarter primarily due to price increases implemented during the second quarter in our North American Industrial Packaging business. We successfully executed on our planned maintenance outages during the 2013 second quarter with the second quarter being the peak quarter in terms of cost. Operating costs were favorable in the 2013 second quarter as we continue to control costs in a challenging business environment. Input costs were flat relative to the 2013 first quarter. During the 2013 second quarter, we recorded a \$28 million bad debt reserve associated with the bankruptcy of a large envelope company. Finally, the quarter was unfavorably impacted by a decrease in equity earnings from our Ilim joint venture in Russia, mainly due to unfavorable foreign currency movements on Ilim's US dollar denominated debt as well as start-up and ramp-up costs related to two major capital projects.

Looking ahead to the 2013 third quarter, we expect seasonally lower volume in our North American Industrial Packaging business including the impact of one less shipping day in the third quarter. We should continue to see improving trends in the North American Consumer Packaging business. Volumes in our European paper business should be stable with continued stress on the European packaging business due to ongoing economic uncertainty surrounding Western Europe. We expect a seasonal volume increase in our Brazil paper business. The 2013 second quarter containerboard price increase should drive increased price realization in the North American Industrial Packaging business but otherwise we expect price and mix to be relatively flat in the other businesses with continued pressure in Europe. We anticipate increased wood costs to impact the North American paper business along with higher wood and energy costs impacting the European and Russian paper businesses. Higher fiber prices will partially offset some of the benefits associated with the recent price increases in our North American Industrial Packaging business. Planned maintenance outage costs will be significantly lower in the 2013 third quarter coming off peak maintenance cost in the 2013 second quarter. For our Ilim joint venture, we expect a positive impact associated with the non-repeating second quarter unfavorable currency adjustment and a relatively flat operational quarter with a combination of continued ramp-up costs, but at a lower level, and pulp pricing pressure.

Operating Earnings is a non-GAAP measure. Diluted earnings (loss) per share attributable to International Paper Company common shareholders is the most direct comparable GAAP measure. The Company calculates Operating Earnings by excluding the after-tax effect of items considered by management to be unusual from the earnings reported under GAAP, non-operating pension expense, and discontinued operations. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. The Company believes that using this information, along with the most direct comparable GAAP measure, provides for a more complete analysis of the results of operations. The following are reconciliations of Operating Earnings per share attributable to International Paper Company common shareholders to diluted earnings (loss) per share attributable to International Paper Company common shareholders.

|                    |              |
|--------------------|--------------|
| Three Months Ended | Three Months |
| June 30,           | Ended        |
|                    | March 31,    |

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|                                                                  | 2013   | 2012    | 2013    |   |
|------------------------------------------------------------------|--------|---------|---------|---|
| Operating Earnings (Loss) Per Share Attributable to Shareholders | \$0.64 | \$0.53  | \$0.65  |   |
| Non-operating pension                                            | (0.11  | ) (0.07 | ) (0.11 | ) |
| Special items                                                    | (0.01  | ) (0.19 | ) 0.11  |   |
| Diluted Earnings (Loss) Per Share from Continuing Operations     | 0.52   | 0.27    | 0.65    |   |
| Discontinued operations                                          | 0.05   | 0.04    | 0.06    |   |
| Diluted Earnings (Loss) Per Share Attributable to Shareholders   | \$0.57 | \$0.31  | \$0.71  |   |

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**RESULTS OF OPERATIONS**

For the second quarter of 2013, International Paper Company reported net sales of \$7.3 billion, compared with \$7.1 billion in the first quarter of 2013 and \$7.1 billion in the second quarter of 2012. The results of operations of Temple-Inland are included since the acquisition in February 2012.

Net earnings attributable to International Paper totaled \$259 million, or \$0.57 per share, in the 2013 second quarter. This compared with \$134 million, or \$0.31 per share, in the second quarter of 2012 and \$318 million, or \$0.71 per share, in the first quarter of 2013.

Earnings from continuing operations attributable to International Paper Company were \$235 million in the second quarter of 2013 compared with \$118 million in the second quarter of 2012 and \$292 million in the first quarter of 2013. Compared with the second quarter of 2012, earnings in the 2013 second quarter benefited from higher average sales price realizations (\$123 million), higher sales volumes (\$4 million), lower corporate and other items (\$4 million), lower net interest expense (\$3 million), and lower tax expense (\$10 million) reflecting a lower estimated tax rate. These benefits were offset by the net impact of the divestiture of three containerboard mills in 2012 and step-up depreciation recorded for Temple-Inland in 2013 (\$27 million), the net impact of a less favorable mix of products sold and higher operating costs (\$7 million), higher raw material and freight costs (\$25 million), a provision for a bad debt related to a large envelope customer (\$20 million) and higher non-operating pension expense (\$22 million). Equity earnings, net of taxes, relating to International Paper's investment in Ilim Holding S.A. were \$9 million lower in the 2013 second quarter than in the 2012 second quarter. Net special items were a loss of \$2 million in the 2013 second quarter, compared with a loss of \$85 million in the 2012 second quarter.

Compared with the first quarter of 2013, earnings benefited from higher average sales price realizations (\$32 million), higher sales volumes (\$43 million), a more favorable mix of products sold and lower operating costs (\$51 million), lower corporate and other items (\$21 million) and lower net interest expense (\$2 million). These benefits were offset by higher mill outage costs (\$67 million), higher raw material and freight costs (\$1 million), a provision for a bad debt related to a large envelope customer (\$20 million) and higher tax expense (\$42 million) reflecting a higher estimated tax rate. Equity earnings, net of taxes, for Ilim Holding, S.A. decreased by \$23 million versus the 2013 first quarter. Net special items were a loss of \$2 million in the 2013 second quarter, compared with a gain of \$51 million in the 2013 first quarter.

To measure the performance of the Company's business segments from period to period without variations caused by special or unusual items, International Paper's management focuses on industry segment operating profit. This is defined as earnings from continuing operations before taxes, equity earnings and noncontrolling interests net of taxes, excluding interest expense,

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corporate charges and corporate special items which may include restructuring charges and (gains) losses on sales and impairments of businesses.

The following table presents a reconciliation of net earnings attributable to International Paper Company to its operating profit:

| In millions                                                                            | Three Months Ended |       | March 31, |
|----------------------------------------------------------------------------------------|--------------------|-------|-----------|
|                                                                                        | June 30,           | 2012  |           |
|                                                                                        | 2013               |       | 2013      |
| Earnings (Loss) From Continuing Operations Attributable to International Paper Company | \$235              | \$118 | \$292     |
| Add back (deduct):                                                                     |                    |       |           |
| Income tax provision (benefit)                                                         | 94                 | 57    | (69 )     |
| Equity (earnings) loss, net of taxes                                                   | 36                 | 26    | 10        |
| Noncontrolling interests, net of taxes                                                 | (2 )               | 3     | (3 )      |
| Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings     | 363                | 204   | 230       |
| Interest expense, net                                                                  | 168                | 172   | 164       |
| Noncontrolling interests / equity earnings included in operations                      | (4 )               | (4 )  | —         |
| Corporate items                                                                        | —                  | 3     | 22        |
| Special items                                                                          | (9 )               | 9     | 6         |
| Non-operating pension expense                                                          | 83                 | 42    | 84        |
|                                                                                        | \$601              | \$426 | \$506     |
| Industry Segment Operating Profit:                                                     |                    |       |           |
| Industrial Packaging                                                                   | \$474              | \$260 | \$355     |
| Printing Papers                                                                        | 76                 | 104   | 149       |
| Consumer Packaging                                                                     | 51                 | 57    | 7         |
| Distribution                                                                           | —                  | 5     | (5 )      |
| Total Industry Segment Operating Profit                                                | \$601              | \$426 | \$506     |

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Industry Segment Operating Profit

Total industry segment operating profits of \$601 million in the 2013 second quarter were higher than the \$426 million in the 2012 second quarter and the \$506 million in the 2013 first quarter. Compared with the second quarter of 2012, operating profits in the current quarter benefited from higher average sales price realizations (\$181 million) and higher sales volumes (\$6 million). These benefits were offset by the net impact of the divestiture of three containerboard mills in 2012 and step-up depreciation recorded for Temple-Inland in 2013 (\$40 million), the net impact of a less favorable mix of products sold and higher operating costs (\$11 million), higher raw material and freight costs (\$37 million), a provision for a bad debt related to a large envelope customer (\$28 million) and higher other costs (\$2 million). Special items were a loss of \$21 million in the 2013 second quarter, compared with a loss of \$127 million in the 2012 second quarter.

Compared with the first quarter of 2013, operating profits benefited from higher average sales price realizations (\$40 million), higher sales volumes (\$55 million), a more favorable mix of products sold and lower operating costs (\$64 million) and lower other items (\$6 million). These benefits were offset by higher mill outage costs (\$85 million), higher raw material and freight costs (\$1 million) and a provision for a bad debt related to a large envelope customer (\$28 million). Special items were a loss of \$21 million in the 2013 second quarter, compared with a loss of \$65 million in the 2013 first quarter.

During the 2013 second quarter, International Paper took approximately 225,000 tons of downtime of which approximately 1,000 tons were market-related compared with approximately 393,000 tons of downtime, which included about 161,000 tons that were market-related, in the 2012 second quarter. During the 2013 first quarter, International Paper took approximately 252,000 tons of downtime of which approximately 53,000 tons were market-related. In addition, the Company permanently shutdown a paper machine at our Augusta, Georgia mill which reduced capacity by approximately 35,000 tons during the second quarter of 2013 and 13,000 tons during the first quarter of 2013. Market-related downtime is taken to balance internal supply with our customer demand to help manage inventory levels, while maintenance downtime, which makes up the majority of the difference between total downtime and market-related downtime, is taken periodically during the year.

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## Sales Volumes by Product (a)

Sales volumes of major products for the three months and six months ended June 30, 2013 and 2012 were as follows:

|                                          | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|------------------------------------------|--------------------------------|-------|------------------------------|-------|
| In thousands of short tons               | 2013                           | 2012  | 2013                         | 2012  |
| Industrial Packaging                     |                                |       |                              |       |
| Corrugated Packaging (b)                 | 2,679                          | 2,795 | 5,228                        | 5,257 |
| Containerboard (b)                       | 861                            | 828   | 1,719                        | 1,577 |
| Recycling                                | 580                            | 597   | 1,161                        | 1,134 |
| Saturated Kraft                          | 49                             | 45    | 89                           | 83    |
| Gypsum/Release Kraft (b)                 | 36                             | 31    | 66                           | 52    |
| Bleached Kraft                           | 40                             | 32    | 71                           | 55    |
| European Industrial Packaging (c)        | 332                            | 260   | 671                          | 526   |
| Asian Box                                | 101                            | 100   | 201                          | 198   |
| Brazilian Packaging (d)                  | 82                             | —     | 123                          | —     |
| Industrial Packaging                     | 4,760                          | 4,688 | 9,329                        | 8,882 |
| Printing Papers                          |                                |       |                              |       |
| U.S. Uncoated Papers                     | 624                            | 637   | 1,254                        | 1,322 |
| European and Russian Uncoated Papers (f) | 339                            | 311   | 668                          | 622   |
| Brazilian Uncoated Papers                | 279                            | 295   | 543                          | 569   |
| Indian Uncoated Papers                   | 57                             | 47    | 117                          | 126   |
| Uncoated Papers                          | 1,299                          | 1,290 | 2,582                        | 2,639 |
| Market Pulp (e)                          | 427                            | 356   | 859                          | 741   |
| Consumer Packaging                       |                                |       |                              |       |
| North American Consumer Packaging        | 410                            | 388   | 779                          | 761   |
| European Coated Paperboard               | 90                             | 88    | 181                          | 185   |
| Asian Coated Paperboard                  | 338                            | 240   | 698                          | 477   |
| Consumer Packaging                       | 838                            | 716   | 1,658                        | 1,423 |

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

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

(c) Includes volumes for Turkish box plants beginning in Q1 2013 when a majority ownership was acquired.

(d) Includes volumes for Brazil Packaging from date of acquisition in mid-January 2013.

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

(f) Volumes for the three months and six months ended June 30, 2013 were revised subsequent to the press release issued July 25, 2013.

## Discontinued Operations

On July 19, 2013, the Company finalized the sale of its Temple-Inland Building Products division, which included 15 manufacturing facilities, to Georgia-Pacific Building Products, LLC for \$710 million in cash, subject to customary closing adjustments.

On April 1, 2013, the Company finalized the sale of Temple-Inland's 50% interest in Del-Tin Fiber L.L.C. (Del-Tin) to joint venture partner Deltic Timber Corporation (Deltic) for \$20 million in assumed liabilities and cash.

Accordingly, the Del-Tin assets (which included a manufacturing facility) were excluded from the sale to Georgia-Pacific and the purchase price under our sale agreement with Georgia-Pacific was adjusted from \$750 million to \$710 million.

The operating results of the Temple-Inland Building Products business have been included in Discontinued operations from the date of acquisition. The assets of this business, totaling \$774 million and \$759 million at June 30, 2013 and December 31, 2012, respectively, are included in Assets of businesses held for sale in current assets in the accompanying consolidated balance sheet at June 30, 2013 and December 31, 2012. Included in these amounts are

\$26 million and \$153 million related to goodwill and intangibles, respectively. The liabilities of this business, totaling \$54 million and \$44 million at June 30, 2013 and December 31, 2012, respectively, are included in Liabilities of businesses held for sale in the accompanying consolidated balance sheet at June 30, 2013 and December 31, 2012.

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## Income Taxes

An income tax provision of \$94 million was recorded for the 2013 second quarter. Excluding a benefit of \$10 million related to the tax effects of special items and a benefit of \$32 million related to the tax effects of non-operating pension expense, the effective income tax rate for continuing operations was 30% for the quarter.

An income tax benefit of \$69 million was recorded for the 2013 first quarter. Excluding a tax benefit of \$116 million related to the tax effects of special items and a benefit of \$33 million related to the tax effects of non-operating pension expense, the effective income tax rate for continuing operations was 21% for the quarter.

The first quarter rate includes a benefit of approximately \$35 million related to the enactment into law of The American Taxpayer Relief Act of 2012 on January 2, 2013 (the Act). The Act retroactively restored several expired business tax provisions including the research and experimentation credit and the Subpart F controlled foreign corporation look-through exception.

An income tax provision of \$57 million was recorded for the 2012 second quarter. Excluding a benefit of \$51 million related to the tax effects of special items and a benefit of \$13 million related to the tax effects of non-operating pension expense, the effective income tax rate for continuing operations was 32% for the quarter.

## Interest Expense and Corporate Items

Net interest expense for the 2013 second quarter was \$168 million compared with \$164 million in the 2013 first quarter and \$172 million in the 2012 second quarter. The net interest expense for the 2013 first quarter includes interest income of \$6 million related to the settlement of a U.S. federal income tax audit.

Corporate items, net, of \$0 million in the 2013 second quarter were lower than the \$22 million of net expense in the 2013 first quarter and the \$3 million of net expense in the 2012 second quarter.

## Restructuring and Other Charges

2013: During the three months ended June 30, 2013, restructuring and other charges totaling a gain of \$4 million before taxes (\$2 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>June 30, 2013 |                      |
|---------------------------------|-------------------------------------|----------------------|
|                                 | Before-Tax<br>Charges               | After-Tax<br>Charges |
| Early debt extinguishment costs | \$3                                 | \$2                  |
| Insurance reimbursements        | (30)                                | (19)                 |
| xpedx restructuring             | 17                                  | 10                   |
| Other                           | 6                                   | 5                    |
| Total                           | \$(4)                               | \$(2)                |

During the three months ended March 31, 2013, restructuring and other charges totaling \$59 million before taxes (\$36 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>March 31, 2013 |                      |
|---------------------------------|--------------------------------------|----------------------|
|                                 | Before-Tax<br>Charges                | After-Tax<br>Charges |
| Early debt extinguishment costs | \$6                                  | \$4                  |
| xpedx restructuring             | 7                                    | 4                    |
| Augusta paper machine shutdown  | 44                                   | 27                   |
| Other                           | 2                                    | 1                    |
| Total                           | \$59                                 | \$36                 |

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2012: During the three months ended June 30, 2012, restructuring and other charges totaling \$21 million before taxes (\$13 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>June 30, 2012 |                   |
|---------------------------------|-------------------------------------|-------------------|
|                                 | Before-Tax Charges                  | After-Tax Charges |
| Early debt extinguishment costs | \$10                                | \$6               |
| xpedx restructuring             | 10                                  | 6                 |
| Other                           | 1                                   | 1                 |
| Total                           | \$21                                | \$13              |

During the three months ended March 31, 2012, restructuring and other charges totaling \$34 million before taxes (\$23 million after taxes) were recorded. Details of these charges were as follows:

| In millions                     | Three Months Ended<br>March 31, 2012 |                   |
|---------------------------------|--------------------------------------|-------------------|
|                                 | Before-Tax Charges                   | After-Tax Charges |
| Early debt extinguishment costs | \$16                                 | \$10              |
| xpedx restructuring             | 19                                   | 14                |
| Other                           | (1)                                  | (1)               |
| Total                           | \$34                                 | \$23              |

#### Net (Gains) Losses on Sales and Impairments of Businesses

2012: As referenced in Note 7, on July 2, 2012, International Paper finalized the sales of its Ontario and Oxnard (Hueneme), California containerboard mills to New-Indy Containerboard LLC, and its New Johnsonville, Tennessee containerboard mill to Hood Container Corporation. A pre-tax charge of \$9 million (\$5 million after taxes) was recorded during the three months ended June 30, 2012 for costs associated with the divestiture of these three containerboard mills. Also, in anticipation of the divestiture of the Hueneme mill in Oxnard, California, a pre-tax charge of \$62 million (\$38 million after taxes) was recorded during the three months ended June 30, 2012 to adjust the long-lived assets of the mill to their fair value.

Also during the three months ended June 30, 2012, the Company recorded a pre-tax charge of \$6 million (\$4 million after taxes) to adjust the previously estimated loss on the sale of the Company's Shorewood business.

During the three months ended March 31, 2012, the Company recorded a pre-tax gain of \$7 million (\$6 million after taxes) to adjust the previously estimated loss on the sale of the Company's Shorewood business. The sale of the Shorewood non-U.S. business was completed in January 2012.

All of the charges discussed above are included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations.

#### BUSINESS SEGMENT OPERATING RESULTS

The following presents business segment discussions for the second quarter of 2013.

##### Industrial Packaging

| In millions      | 2013        |             |            | 2012        |             |            |
|------------------|-------------|-------------|------------|-------------|-------------|------------|
|                  | 2nd Quarter | 1st Quarter | Six Months | 2nd Quarter | 1st Quarter | Six Months |
| Sales            | \$3,780     | \$3,560     | \$7,340    | \$3,450     | \$3,115     | \$6,565    |
| Operating Profit | 474         | 355         | 829        | 260         | 215         | 475        |

Industrial Packaging net sales and operating profits include the results of the Temple-Inland packaging operations from the date of acquisition in February 2012 and the results of the Brazil Packaging business from the date of acquisition in January 2013. In addition, due to the acquisition of a majority share of Olmuksa International Paper Sabanci Ambalaj Sanayi Ve Ticaret A.S., (now called Olmuksan International Paper or Olmuksan) net sales for our corrugated packaging business in Turkey are included in the business segment totals beginning in the first quarter of 2013 and operating profits reflect a higher ownership percentage than in previous years. Net sales for the second quarter of 2013 were 6% higher than in the first quarter of 2013 and 10% higher than in the second quarter of 2012.

Operating profits in the second quarter of 2013 included charges of \$14 million for integration costs associated with the Temple-Inland acquisition, a gain of \$13 million related to a bargain purchase adjustment

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on the acquisition of a majority share of our operations in Turkey, charges of \$1 million related to the acquisition of the Brazil Packaging operations and charges of \$1 million related to the restructuring of the Company's Packaging business in Europe. Operating profits in the first quarter of 2013 included charges of \$12 million for integration costs associated with the Temple-Inland acquisition, charges of \$1 million for costs associated with the third-quarter 2012 divestiture of three containerboard mills and a net charge of \$1 million for costs associated with the acquisition in Turkey. Operating profits in the second quarter of 2012 included a charge of \$62 million to adjust the value of the long-lived assets of the Hueneme mill to their fair value in anticipation of its divestiture, charges of \$35 million for integration costs associated with the Temple-Inland acquisition, charges of \$9 million for costs associated with the third-quarter 2012 divestiture of the Hueneme mill and two other containerboard mills and a charge of \$1 million related to the 2009 closure of the Etienne mill in France. Excluding these items, operating profits in the second quarter of 2013 were 29% higher than in the first quarter of 2013 and 30% higher than in the second quarter of 2012.

North American Industrial Packaging net sales were \$3.2 billion in the second quarter of 2013 compared with \$3.0 billion in the first quarter of 2013 and \$3.0 billion in the second quarter of 2012. Operating profits were \$454 million (\$468 million excluding Temple-Inland integration costs) in the second quarter of 2013 compared with \$337 million (\$350 million excluding Temple-Inland integration costs and mill divestiture costs) in the first quarter of 2013 and \$248 million (\$354 million excluding Temple-Inland acquisition costs and mill divestiture costs) in the second quarter of 2012.

Sales volumes in the second quarter of 2013 were higher than in the first quarter of 2013, reflecting two additional shipping days and seasonally higher demand for packaging in the agricultural markets. Domestic containerboard shipments were flat while export shipments increased. Total maintenance and market-related downtime decreased about 97,000 tons. Maintenance downtime decreased 68,000 tons to 99,000 tons in the second quarter of 2013 while market-related downtime decreased to zero tons from 29,000 tons in the first quarter of 2013. Average sales price realizations increased for boxes, reflecting the implementation of an announced price increase and the impact of seasonally strong sales to the agricultural market. Domestic containerboard sales price realizations increased due to the implementation of a price increase announced in April. Export containerboard sales prices were also higher. Input cost increases for recycled fiber and energy were more than offset by lower costs for wood and wax. Planned maintenance downtime costs were \$3 million higher in the 2013 second quarter compared with the 2013 first quarter. Operating costs were favorable.

Compared with the second quarter of 2012, sales volumes in the second quarter of 2013 were slightly higher overall reflecting a slight decline for boxes, more than offset by higher export containerboard shipments. Domestic containerboard shipments were flat. Average sales price realizations were higher due to sales price increases for boxes and domestic containerboard that were implemented in the second half of 2012 and the first half of 2013 as well as higher sales prices for export containerboard shipments. Input costs for recycled fiber decreased, but this benefit was more than offset by higher energy costs. Planned maintenance downtime costs were \$9 million higher in the second quarter of 2013. The business took about 236,000 tons of total downtime in the second quarter of 2012 of which about 94,000 tons were maintenance downtime and about 142,000 were market-related.

Entering the third quarter of 2013, sales volumes are expected to be seasonally lower for boxes and containerboard sales volumes are also expected to be lower. Average sales price realizations are expected to improve reflecting the continued implementation of announced price increases for containerboard and boxes. Input costs are expected to be stable. Planned maintenance downtime costs should be about \$33 million lower with outages planned at five mills. European Industrial Packaging net sales were \$310 million in the second quarter of 2013 compared with \$320 million in the first quarter of 2013 and \$255 million in the second quarter of 2012. Net sales in 2013 include the sales of our packaging operations in Turkey which are now fully consolidated. Operating profits were \$20 million (\$8 million excluding a gain on a bargain purchase adjustment on our acquisition in Turkey and costs associated with the restructuring of the Company's Packaging business in Europe) in the second quarter of 2013 compared with \$17 million (\$18 million excluding acquisition and restructuring costs) in the first quarter of 2013 and \$11 million (\$12 million excluding closure costs) in the second quarter of 2012.

Sales volumes in the second quarter of 2013 were lower than in the first quarter of 2013 due to seasonally weaker demand in the agricultural market in Morocco, poor agricultural market demand caused by unfavorable weather in

France and Italy, and the impact of soft economic conditions in Europe. Average sales margins decreased reflecting our inability to recover increased containerboard costs due to market pressures on sales prices. Other input costs were lower, primarily for energy. Insurance settlements of \$3 million and \$5 million were recorded in the second quarter of 2013 and first quarter of 2013, respectively, related to the earthquakes in Northern Italy in May 2012 which affected our San Felice box plant.

Compared with the second quarter of 2012, sales volumes in the second quarter of 2013 were lower reflecting stable, but weak, demand for industrial packaging in Europe and decreased agricultural packaging demand in France, partially offset by strong demand in Morocco and Turkey. Average sales margins decreased significantly due to input costs for containerboard rising

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ahead of box sales price increases. Input costs for energy were slightly higher. Operating costs in the second quarter of 2012 included \$4 million for insurance deductibles related to the earthquakes in Northern Italy.

Looking ahead to the third quarter of 2013, sales volumes are expected to be seasonally lower. Average sales margins are expected to improve as box price increases are realized and costs for containerboard stabilize. Input costs for energy should be slightly lower.

Brazilian Industrial Packaging includes the results of Orsa International Paper Embalagens S.A., a corrugated packaging producer in which International Paper acquired a 75% share in January 2013. Net sales were \$100 million in the second quarter of 2013 compared with \$45 million in the first quarter of 2013. Operating profits were \$0 million (\$1 million excluding acquisition costs) in the second quarter of 2013 compared with \$1 million in the first quarter of 2013. Compared with the first quarter of 2013, sales volumes in the second quarter of 2013 were about flat on a monthly basis, but were higher in the second quarter because the first quarter did not include a full three months of activity. Average sales prices were slightly higher. Operating profits in the third quarter of 2013 are expected to increase reflecting the implementation of a box sales price increase and other operational improvements.

Asian Industrial Packaging net sales for the packaging operations were \$100 million in the second quarter of 2013 compared with \$95 million in the first quarter of 2013 and \$100 million in the second quarter of 2012. Operating profits for the packaging operations were losses of \$1 million in both the second quarter and first quarter of 2013 compared with a gain of \$1 million in the second quarter of 2012. Operating profits in both the second and first quarters of 2013 were negatively impacted by bad debt expenses.

Net sales for the distribution operations were \$80 million in the second quarter of 2013 compared with \$75 million in the first quarter of 2013 and \$60 million in the second quarter of 2012. Operating profits for the distribution operations were \$1 million in the second quarter of 2013, \$1 million in the first quarter of 2013 and \$0 million in the second quarter of 2012.

Compared with the first quarter of 2013, sales volumes for the packaging business were slightly higher in the second quarter of 2013 reflecting a seasonal increase in demand while average sales margins were lower reflecting an unfavorable sales mix. Operating profits in the third quarter of 2013 are expected to improve from the second quarter of 2013 primarily due to increased market demand.

#### Printing Papers

| In millions      | 2013        |             |         | 2012        |             |         |
|------------------|-------------|-------------|---------|-------------|-------------|---------|
|                  | 2nd Quarter | 1st Quarter | YTD     | 2nd Quarter | 1st Quarter | YTD     |
| Sales            | \$1,540     | \$1,540     | \$3,080 | \$1,510     | \$1,560     | \$3,070 |
| Operating Profit | 76          | 149         | 225     | 104         | 146         | 250     |

Printing Papers net sales for the second quarter of 2013 were even with the first quarter of 2013 and 2% higher than in the second quarter of 2012. Operating profits included a \$2 million charge in the second quarter of 2012 associated with the acquisition of a majority share of Andhra Pradesh Paper Mills Limited. Excluding this item, operating profits in the second quarter of 2013 were 49% lower than in the first quarter of 2013 and 28% lower than in the second quarter of 2012.

North American Printing Papers net sales were \$645 million in the second quarter of 2013 compared with \$645 million in the first quarter of 2013 and \$670 million in the second quarter of 2012. Operating profits were a loss of \$8 million in the second quarter of 2013 and earnings of \$63 million in the first quarter of 2013 and \$69 million in the second quarter of 2012.

Sales volumes in the second quarter of 2013 decreased slightly compared with the first quarter of 2013. Average domestic sales price realizations were slightly lower, while sales prices to export markets were stable. Input costs were slightly favorable as lower energy and chemicals costs were partially offset by higher wood costs. Planned maintenance downtime costs were \$38 million higher with outages at the Eastover, Ticonderoga and Riverdale mills in the second quarter of 2013 compared with an outage at the Georgetown mill in the first quarter of 2013.

Additionally, in the second quarter the business established a \$28 million reserve to cover potential exposure related to outstanding accounts receivable from a large envelope customer due to their filing for bankruptcy protection in June 2013.

Compared with the second quarter of 2012, sales volumes in the second quarter of 2013 were lower. Average sales price realizations were lower in both the domestic and export markets. In addition, average sales margins were negatively impacted by the geographic mix which included a higher proportion of sales to lower-margin export markets. Input costs were higher for wood and energy. Operating costs also increased. Planned maintenance downtime costs were \$3 million higher than in the second quarter of 2012.

Entering the third quarter of 2013, sales volumes are expected to be lower for domestic uncoated freesheet paper, but the decrease should be more than offset by higher shipments to export markets. Average sales price realizations are expected to be

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stable in the domestic market and slightly declining in the export markets. Input costs are expected to increase. Planned maintenance downtime costs should be \$40 million lower with an outage scheduled at the Eastover mill. Operating profits will also improve due to the non-recurrence of the bad debt expense.

European Printing Papers net sales were \$360 million in the second quarter of 2013, compared with \$365 million in the first quarter of 2013 and \$335 million in the second quarter of 2012. Operating profits were \$31 million in the second quarter of 2013 compared with \$54 million in the first quarter of 2013 and \$20 million in the second quarter of 2012.

Compared with the first quarter of 2013, sales volumes in the second quarter of 2013 were seasonally higher in Russia, while sales volumes in Europe decreased slightly due to continuing poor economic conditions. Average sales price realizations for uncoated freesheet paper were stable in both Europe and Russia. Input costs, primarily for wood, were higher. Planned maintenance downtime costs were \$20 million higher in the second quarter of 2013 due to outages at the Svetogorsk and Kwidzyn mills compared with no outages in the 2013 first quarter. Manufacturing operating costs were slightly favorable reflecting strong performance at all three mills.

Sales volumes in the second quarter of 2013 were higher in Russia, but lower in Europe compared with the second quarter of 2012. Average sales price realizations for uncoated freesheet paper decreased in both Russia and Europe due to weak economic conditions and soft market demand. Input costs for energy and wood in Russia were higher, but were more than offset by lower wood, energy and chemical costs in Europe. Planned maintenance downtime costs were \$13 million lower in the second quarter of 2013 compared with the second quarter of 2012 although outages occurred at the same mills in both periods. Manufacturing operating costs were also lower.

Looking forward to the third quarter of 2013, sales volumes are expected to be seasonally stronger in Russia, but will be flat in Europe. Average sales price realizations are expected to continue to erode for uncoated freesheet paper. Input costs will increase due to higher wood and energy costs. Planned maintenance downtime costs should be \$17 million lower.

Brazilian Printing Papers net sales were \$270 million in the second quarter of 2013 compared with \$260 million in the first quarter of 2013 and \$285 million in the second quarter of 2012. Operating profits were \$59 million in the second quarter of 2013, \$45 million in the first quarter of 2013 and \$51 million in the second quarter of 2012.

Sales volumes in the second quarter of 2013 were higher than in the first quarter of 2013 primarily due to seasonally stronger demand for uncoated freesheet paper in the Brazilian domestic market. Export volumes were also better due to increased sales to Latin American and overseas markets. Average sales price realizations increased for paper in the Brazilian market reflecting the further realization of price increases for both cutsize and offset paper. Average sales price realizations in export markets increased overall, but varied by region. Average sales margins were positively impacted by the geographic mix. Input costs were higher for energy and wood. Manufacturing operating costs were slightly higher, primarily due to higher maintenance costs. Planned maintenance downtime costs were \$1 million higher in the second quarter of 2013 with an outage at the Tres Lagoas mill compared with no outages in the first quarter of 2013.

Compared with the second quarter of 2012, sales volumes in the second quarter of 2013 increased for uncoated freesheet paper in the Brazilian domestic market, but were more than offset by lower export shipments. Average sales price realizations improved for domestic uncoated freesheet paper and for pulp, but decreased for exported paper. Input costs were higher for wood, purchased pulp and chemicals, but energy costs were lower. Planned maintenance downtime costs were about the same with outages at the Tres Lagoas mill in both periods.

Entering the third quarter of 2013, sales volumes are expected to increase reflecting seasonally stronger demand for uncoated freesheet paper in the Brazilian domestic and Latin American export markets. Average sales margins should improve due to an increased proportion of sales to the higher-margin domestic market. Planned maintenance downtime costs should be \$7 million higher with an outage planned at the Mogi Guacu mill.

Indian Printing Papers net sales were \$45 million in the second quarter of 2013 compared with \$50 million in the first quarter of 2013 and \$35 million in the second quarter of 2012. Operating profits were a loss of \$3 million in the second quarter of 2013 compared with losses of \$4 million in the first quarter of 2013 and \$10 million (\$8 million excluding acquisition costs) in the second quarter of 2012. Compared with the first quarter of 2013, operating results in the second quarter of 2013 reflect lower sales volumes, but higher average sales price realizations. Input costs

increased for wood and planned maintenance downtime costs were slightly higher due to an outage at the Kadium mill. In the third quarter of 2013, both sales volumes and average sales price realizations are expected to increase. However, these benefits will be more than offset by seasonally higher wood costs and an increase of about \$5 million for planned maintenance downtime costs for an outage at the Rajahmundry mill.

Asian Printing Papers net sales were \$15 million in the second quarter of 2013 compared with \$25 million in the first quarter of 2013 and \$25 million in the second quarter of 2012. Operating profits were about breakeven in all periods presented.

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U.S. Market Pulp net sales were \$205 million in the second quarter of 2013 compared with \$195 million in the first quarter of 2013 and \$160 million in the second quarter of 2012. Operating profits were a loss of \$3 million in the second quarter of 2013 compared with losses of \$9 million in the first quarter of 2013 and \$26 million in the second quarter of 2012.

Sales volumes were down in the second quarter of 2013 compared with the first quarter of 2013 reflecting lower shipments of market pulp, partially offset by higher shipments of fluff pulp due to the ramp up of the Franklin mill to full fluff pulp production. Average sales price realizations for fluff pulp were relatively flat, but increased for market pulp. Input costs were flat. Planned maintenance downtime costs in the second quarter of 2013 were \$3 million higher with outages at the Eastover, Pensacola and Riegelwood mills compared with an outage at the Georgetown mill in the first quarter of 2013. Operating costs were flat.

Compared with the second quarter of 2012, sales volumes were higher in the second quarter of 2013. Average sales price realizations were lower for fluff pulp, but were higher for market pulp. Input costs were higher for wood and chemicals. Planned maintenance downtime costs were \$3 million higher. Operating costs were significantly lower, primarily due to higher start-up costs at the Franklin mill in the second quarter of 2012.

Entering the third quarter of 2013, sales volumes are expected to be flat, however, average sales price realizations are expected to improve reflecting the realization of an announced price increase for fluff pulp. Input costs are expected to be flat. Planned maintenance downtime costs should be \$1 million higher with an outage scheduled at the Franklin mill.

## Consumer Packaging

| In millions      | 2013           |             |         | 2012           |             |         |
|------------------|----------------|-------------|---------|----------------|-------------|---------|
|                  | 2nd<br>Quarter | 1st Quarter | YTD     | 2nd<br>Quarter | 1st Quarter | YTD     |
| Sales            | \$855          | \$830       | \$1,685 | \$780          | \$810       | \$1,590 |
| Operating Profit | 51             | 7           | 58      | 57             | 103         | 160     |

Consumer Packaging net sales in the second quarter of 2013 were 3% higher than in the first quarter of 2013 and 10% higher than in the second quarter of 2012. Operating profits in the second quarter of 2013 and first quarter of 2013 included charges of \$1 million and \$44 million, respectively, related to the permanent shutdown of a paper machine at our Augusta, Georgia mill. Operating profits in the second quarter of 2012 included charges of \$6 million related to the sale of the Shorewood business. Excluding these items, operating profits in the second quarter of 2013 were 2% higher than in the first quarter of 2013 and 17% lower than in the second quarter of 2012.

North American Consumer Packaging net sales in the second quarter of 2013 were \$505 million compared with \$460 million in the first quarter of 2013 and \$495 million in the second quarter of 2012. Operating profits were \$32 million (\$33 million excluding paper machine shutdown costs) in the second quarter of 2013 compared with a loss of \$22 million (a gain of \$22 million excluding paper machine shutdown costs) in the first quarter of 2013 and \$31 million (\$37 million excluding costs associated with the sale of the Shorewood business) in the second quarter of 2012.

Coated Paperboard sales volumes in the second quarter of 2013 were higher than in the first quarter of 2013 reflecting improving market demand and successful new business development. The business took no market-related downtime in the second quarter of 2013 compared with 23,000 tons of market-related downtime in the first quarter of 2013.

Average sales price realizations improved primarily for cupstock and folding carton board. Input costs were higher as increased energy and chemicals costs were partially offset by lower wood costs. Planned maintenance downtime costs were \$12 million higher in the 2013 second quarter with outages at the Riegelwood and Texarkana mills compared with no outages in the 2013 first quarter. Operating costs were lower primarily related to the resolution of some reliability issues that occurred in the first quarter at the Augusta mill.

Compared with the second quarter of 2012, sales volumes in the second quarter of 2013 increased. The permanent shutdown of a paper machine at the Augusta mill in the first quarter of 2013 reduced capacity by 35,000 tons in the second quarter of 2013 compared with the second quarter of 2012. In addition, the business took 18,000 tons of market-related downtime in the second quarter of 2012. Average sales price realizations were significantly lower. Input costs for energy were higher, but were offset by lower chemical and wood costs. Planned maintenance downtime costs were \$6 million lower in the 2013 second quarter compared with the 2012 second quarter. Operating

costs were lower due to improved operations.

Foodservice sales volumes in the second quarter of 2013 were higher than in the first quarter of 2013 mainly due to seasonally higher cold cup sales. Average sales price realizations decreased slightly, however, average sales margins were helped by a favorable customer mix. Compared with the second quarter of 2012, sales volumes in the second quarter of 2013 were slightly lower reflecting softer market demand. Average sales margins improved due to lower input costs for board and resins and favorable customer mix.

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Looking forward to the third quarter of 2013, coated paperboard sales volumes are expected to be flat. Average sales margins are expected to increase due to the further price realization. Planned maintenance downtime costs should be \$10 million lower than in the 2013 second quarter with no significant outages scheduled. Input costs are expected to be flat. Foodservice sales volumes are expected to be slightly higher while average sales margins are expected to be flat.

European Consumer Packaging net sales were \$95 million in the second quarter of 2013 compared with \$95 million in the first quarter of 2013 and \$90 million in the second quarter of 2012. Operating profits in the second quarter of 2013 were \$18 million compared with \$32 million in the first quarter of 2013 and \$21 million in the second quarter of 2012. Sales volumes in the second quarter of 2013 compared with the first quarter of 2013 were flat as higher sales volumes in Russia were offset by lower volumes in Europe. Despite pricing pressures, average sales margins were stable. Input costs, primarily for wood, were slightly higher. Planned maintenance downtime costs were \$7 million higher in the second quarter of 2013 with outages at the Kwidzyn and Svetogorsk mills compared with no outages in the first quarter of 2013. Operating costs were higher. Compared with the second quarter of 2012, sales volumes were slightly higher. Average sales margins improved reflecting higher sales price realizations and a more favorable mix. Planned maintenance downtime costs were \$4 million higher in the second quarter of 2013. Input costs were about flat, while operating costs were lower.

Entering the third quarter of 2013, sales volumes are expected to be flat, but average sales price realizations, particularly in Russia, are expected to be lower. Planned maintenance downtime costs will be \$7 million lower with no outages scheduled in the third quarter. Input costs are expected to be flat as higher wood and energy costs in Russia will be offset by lower costs in Europe.

Asian Consumer Packaging net sales were \$255 million in the second quarter of 2013, \$275 million in the first quarter of 2013 and \$195 million in the second quarter of 2012. Operating profits were \$1 million in the second quarter of 2013 compared with a loss of \$3 million in the first quarter of 2013 and a gain of \$5 million in the second quarter of 2012. Compared with the first quarter of 2013, sales volumes decreased while average sales price realizations increased. Operating profits also benefited from a favorable foreign exchange impact. Compared with the second quarter of 2012, operating profits declined reflecting competitive pressure on sales prices which squeezed margins and created an unfavorable product mix.

Looking ahead to the third quarter of 2013, sales volumes are expected to increase slightly while profits will be impacted by squeezed margins due to sales price pressures and increasing pulp costs.

**Distribution**

| In millions      | 2013        |             |         | 2012        |             |         |
|------------------|-------------|-------------|---------|-------------|-------------|---------|
|                  | 2nd Quarter | 1st Quarter | YTD     | 2nd Quarter | 1st Quarter | YTD     |
| Sales            | \$1,405     | \$1,385     | \$2,790 | \$1,500     | \$1,475     | \$2,975 |
| Operating Profit | —           | (5)         | (5)     | 5           | (2)         | 3       |

Distribution net sales in the second quarter of 2013 were 1% higher than in the first quarter of 2013 and 6% lower than in the second quarter of 2012. Operating profits included \$17 million, \$7 million and \$12 million in the second quarter of 2013, the first quarter of 2013 and the second quarter of 2012, respectively, of costs related to the reorganization of the Company's xpedx operations. Excluding these items, operating profits in the second quarter of 2013 were significantly higher than in the first quarter of 2013 and even with the second quarter of 2012.

Sales of papers and graphic arts products in the second quarter of 2013 totaled \$800 million compared with \$800 million in the first quarter of 2013 and \$860 million in the second quarter of 2012. Trade margins as a percent of sales for printing papers were even with the first quarter of 2013 and decreased from the second quarter of 2012 due to a change in mix. Packaging sales were \$390 million in the second quarter of 2013, compared with \$380 million in the first quarter of 2013 and \$400 million in the second quarter of 2012. Trade margins as a percent of sales for packaging products were down from the first quarter of 2013, but up from the second quarter of 2012 reflecting a change in mix. Sales of facility solutions products totaled \$215 million in the second quarter of 2013, compared with \$205 million in the first quarter of 2013 and \$240 million in the second quarter of 2012.

Operating profits before reorganization costs in the second quarter of 2013 were \$15 million higher than in the first quarter of 2013. Increased sales volumes and lower operating expenses led to the higher earnings. Operating profits

before reorganization costs in the second quarter of 2013 were even with the second quarter of 2012. Looking ahead to the 2013 third quarter, operating results are expected to be flat to slightly higher due to seasonal volume increases and incremental cost reductions as a result of strategic and other cost reduction initiatives.

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## 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 losses, net of taxes, of \$34 million in the second quarter of 2013, \$11 million in the first quarter of 2013 and \$25 million in the second quarter of 2012. In the second quarter of 2013, the after-tax foreign exchange impact was a loss of \$23 million on the remeasurement of U.S. dollar-denominated debt compared with a loss of \$11 million in the first quarter of 2013. Compared with the first quarter of 2013, sales volumes in the second quarter of 2013 were flat overall as increased sales of softwood pulp to China and paper to the domestic Russian market were offset by lower sales of containerboard and hardwood pulp to China. Average sales price realizations for export sales to China were higher for softwood pulp, hardwood pulp and containerboard. Input costs for wood were seasonally higher, but were partially offset by lower electricity and gas costs. Operating profits were impacted during the 2013 second quarter by costs associated with the start-up and ramp-up of the new pulp line at the Bratsk mill and the coated and uncoated freesheet paper capacity at the Koryazhma mill.

Compared with the second quarter of 2012, sales volumes in the second quarter of 2013 were lower for sales of hardwood pulp and containerboard to China and for sales of softwood pulp and containerboard in Russia. Average sales price realizations were higher for both pulp and containerboard in the domestic market, while average sales price realizations in the Chinese export market increased for hardwood pulp, but decreased for softwood pulp. Input costs increased for wood, energy and freight. A foreign exchange loss of \$41 million on the remeasurement of U.S. dollar-denominated debt was recorded in the second quarter of 2012.

Looking forward to the third quarter of 2013, sales volumes are expected to be higher as a result of the on-going ramp-ups of the new equipment. Average sales price realizations are expected to be flat. Input costs are expected to seasonally decrease for wood, but electricity and gas costs will increase. Earnings will continue to be negatively impacted by costs associated with completing the ramp-up of the new pulp line at the Bratsk mill and the coated and uncoated freesheet capacity at the Koryazhma mill.

## LIQUIDITY AND CAPITAL RESOURCES

Cash provided by continuing operations totaled \$1.2 billion for the first six months of 2013, compared with \$1.4 billion for the comparable 2012 six-month period. Earnings from operations adjusted for non-cash charges and the cash pension plan contributions were \$1.6 billion for the first six months of 2013 compared to \$1.4 billion for the first six months of 2012. Cash used for working capital components totaled \$394 million for the first six months of 2013 compared to cash provided of \$47 million for the comparable 2012 six-month period.

The Company generated free cash flow of approximately \$752 million and \$619 million in the first six months of 2013 and 2012, respectively. Free cash flow is a non-GAAP measure and the most comparable GAAP measure is cash provided by continuing operations. Management uses free cash flow as a liquidity metric because it measures the amount of cash generated that is available to maintain our assets, make investments or acquisitions, pay dividends, reduce debt, and fund other activities. The following is a reconciliation of free cash flow to cash provided by operations:

| In millions                                                     | Six Months Ended |         |
|-----------------------------------------------------------------|------------------|---------|
|                                                                 | June 30,<br>2013 | 2012    |
| Cash provided by continuing operations                          | \$1,239          | \$1,411 |
| Adjustments:                                                    |                  |         |
| Cash invested in capital projects                               | (488)            | (705)   |
| Cash contribution to pension plan                               | 31               | 44      |
| Insurance reimbursement for Guaranty Bank settlement            | (30)             | —       |
| Cash received from unwinding a timber monetization              | —                | (251)   |
| Change in control payments related to Temple-Inland acquisition | —                | 120     |
| Free Cash Flow                                                  | \$752            | \$619   |

Investments in capital projects totaled \$488 million in the first six months of 2013 compared to \$705 million in the first six months of 2012. Full-year 2013 capital spending is currently expected to be approximately \$1.4 billion, or

about 93% of depreciation and amortization expense for our current businesses.

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Amounts related to early debt extinguishment during the three months and six months ended June 30, 2013 and 2012 were as follows:

| In millions                                 | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|---------------------------------------------|--------------------------------|-------|------------------------------|-------|
|                                             | 2013                           | 2012  | 2013                         | 2012  |
| Early debt reductions (a)                   | \$32                           | \$406 | \$58                         | \$436 |
| Pre-tax early debt extinguishment costs (b) | 3                              | 10    | 9                            | 26    |

(a) Reductions related to notes with interest rates ranging from 5.20% to 7.95% with original maturities from 2018 to 2027 and from 1.63% to 7.95% with original maturities from 2017 to 2018 for the three months ended June 30, 2013 and 2012, respectively, and 5.20% to 7.95% with original maturities from 2014 to 2027 and from 1.63% to 7.95% with original maturities from 2012 to 2018 for the six months ended June 30, 2012.

(b) Amounts are included in Restructuring and Other Charges in the accompanying consolidated statements of operations.

Financing activities for the first six months of 2013 included an \$8 million net increase in debt versus a \$784 million net increase in debt during the comparable 2012 six-month period.

In February 2012, International Paper issued a \$1.2 billion term loan with an initial interest rate of LIBOR plus a margin of 138 basis points that varied depending on the credit rating of the Company and a \$200 million term loan with an interest rate of LIBOR plus a margin of 175 basis points, both with maturity dates in 2017. The proceeds from these borrowings were used, along with available cash, to fund the acquisition of Temple-Inland. International Paper has fully repaid the \$1.2 billion term loan.

Subsequent to June 30, 2013, International Paper made early debt repayments of approximately \$98 million with interest rates ranging from 5.45% to 6.45% with original maturities from 2022 to 2033. On July 19, 2013, International Paper, elected to redeem, on August 20, 2013, a \$300 million note with an interest rate of 7.40% and original maturity in 2014. International Paper estimates early debt extinguishment costs are expected to be approximately \$17 million.

During the first six months of 2013, International Paper issued approximately 6.0 million shares of common stock and used 0.5 million shares of treasury stock for various incentive plans, including stock option exercises that generated approximately \$243 million of cash. Also in the first six months of 2013, International Paper acquired 1.2 million shares of treasury stock primarily related to restricted stock tax withholding. Payments of restricted stock withholding taxes totaled \$51 million. During the first six months of 2012, International Paper used approximately 1.5 million shares of treasury stock for various incentive plans, including stock option exercises that generated approximately \$21 million of cash. Also in the first six months of 2012, International Paper acquired 1.1 million shares of treasury stock primarily related to restricted stock tax withholding. Payments of restricted stock withholding taxes totaled \$35 million. Cash dividend payments related to common stock totaled \$272 million and \$237 million for the first six months of 2013 and 2012, respectively. Dividends were \$0.6000 per share and \$0.5250 per share for the first six months in 2013 and 2012, respectively.

At June 30, 2013, contractual obligations for future payments of debt maturities by calendar year were as follows: \$463 million in 2013; \$733 million in 2014; \$470 million in 2015; \$500 million in 2016; \$229 million in 2017; \$1,908 million in 2018; and \$5,823 million thereafter.

Maintaining an investment-grade credit rating is an important element of International Paper's financing strategy. At June 30, 2013, the Company held long-term credit ratings of BBB (stable outlook) and Baa3 (stable outlook) by S&P and Moody's, respectively.

At June 30, 2013, International Paper's contractually committed credit agreements totaled \$2.5 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 committed liquidity facilities include a \$1.5 billion contractually committed bank credit agreement that expires in August 2016 and has a facility fee of 0.175% payable quarterly. The liquidity facilities also include up to \$1.0 billion of commercial paper-based financings based on eligible receivable balances (\$1.0 billion available at June 30, 2013). On January 9, 2013, the Company amended its

\$1.0 billion receivables securitization facility to extend the maturity date from January 2013 to January 2014. The amended agreement has a facility fee of 0.35% payable monthly. At March 31, 2013, International Paper had \$60 million of borrowings under the receivable securitization facility at a rate of 0.95% payable monthly. The borrowings under this receivable securitization facility were repaid in April 2013.

International Paper expects to be able to meet projected capital expenditures, service existing debt and meet working capital and dividend requirements during 2013 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

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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

2013: On January 3, 2013, International Paper completed the acquisition (effective date of acquisition on January 1, 2013) of the shares of its joint venture partner, Sabanci Holding, in the Turkish corrugated packaging company, Olmuksa International Paper Sabanci Ambalaj Sanayi ve Ticaret A.S. (now called Olmuksan International Paper or Olmuksan), for a purchase price of \$56 million. The acquired shares represent 43.7% of Olmuksan's shares. Prior to this acquisition, International Paper held a 43.7% equity interest in Olmuksan.

Because the transaction resulted in International Paper becoming the majority shareholder, owning 87.4% of Olmuksan's outstanding and issued shares, its completion triggered a mandatory call for tender of the remaining public shares which began in March 2013 and ended in April 2013, with no shares tendered. Also as a result of International Paper taking majority control of the entity, Olmuksan's financial results have been consolidated with the Company's Industrial Packaging segment beginning January 1, 2013, the effective date which International Paper obtained majority control of the entity.

Following the transaction, the Company's previously held 43.7% equity interest in Olmuksan was remeasured to a fair value of \$75 million, resulting in a gain of \$9 million. The fair value was estimated by applying the discounted cash flow approach, using a 13% discount rate, long-term sustainable growth rates ranging from 6% to 9% and a corporate tax rate of 20%. In addition, the cumulative translation adjustment balance of \$17 million relating to the previously held equity interest was reclassified to Net bargain purchase gain on acquisition of business from accumulated other comprehensive income.

The preliminary purchase price allocation indicates that the sum of the cash consideration paid, the fair value of the noncontrolling interest and the fair value of the previously held interest is less than the fair value of the underlying assets by \$22 million, resulting in a bargain purchase price gain being recorded on this transaction.

The \$17 million reclassification of the cumulative translation balance and \$18 million of the estimated bargain purchase gain were recorded in the 2013 first-quarter earnings. The \$9 million gain resulting from the measurement of the previously held equity interest and an additional \$4 million bargain purchase gain were recorded in 2013 second-quarter earnings and are included in the Net bargain purchase gain on acquisition of business line item in the accompanying consolidated statement of operations.

2012: On February 13, 2012, International Paper completed the acquisition of Temple-Inland Inc. (Temple-Inland). International Paper acquired all of the outstanding common stock of Temple-Inland for \$32.00 per share in cash, totaling approximately \$3.7 billion, and assumed approximately \$700 million in Temple-Inland's debt. As a condition to allowing the transaction to proceed, the Company entered into an agreement on a proposed Final Judgment with the Antitrust Division of the U.S. Department of Justice (DOJ) that required the Company to divest three containerboard mills, with approximately 970,000 tons of aggregate containerboard capacity. On July 2, 2012, International Paper finalized the sales of its Ontario and Oxnard (Hueneme), California containerboard mills to New-Indy Containerboard LLC, and its New Johnsonville, Tennessee containerboard mill to Hood Container Corporation. By completing these transactions, the Company satisfied its divestiture obligations under the Final Judgment. See Note 8 for further details of these divestitures.

### Joint Ventures

2013: On January 14, 2013, International Paper and Brazilian corrugated packaging producer, Jari Celulose, Papel e Embalagens S.A. (Jari), a Grupo Orsa company, formed Orsa International Paper Embalagens S.A. (Orsa IP). The new entity, in which International Paper holds a 75% stake, includes three containerboard mills and four box plants, which make up Jari's former industrial packaging assets. This acquisition supports the Company's strategy of growing its global packaging presence and better serving its global customer base.

The value of International Paper's investment in Orsa IP is approximately \$465 million. Because International Paper acquired majority control of the joint venture, Orsa IP's financial results have been consolidated with our Industrial Packaging segment from the date of formation on January 14, 2013.

Due to the complex organizational structure of Orsa IP's operations, and the extended time required to prepare consolidated financial information in accordance with accounting principles generally accepted in the United States,

the Company reports its share of Orsa IP's operating results on a one-month lag basis.

**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 shareholders' agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time after the second anniversary of the formation of Ilim, either the Company or its partners may commence procedures specified under the deadlock provisions. Under certain circumstances, the Company would be required

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to purchase its partners' 50% interest in Ilim. Any such transaction would be subject to review and approval by Russian and other relevant antitrust authorities. Based on the provisions of the agreement, International Paper estimates that the current purchase price for its partners' 50% interests would not be material and could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company's option. Any such purchase by International Paper would result in the consolidation of Ilim's financial position and results of operations in all subsequent periods. The parties have informed each other that they have no current intention to commence procedures specified under the deadlock provision of the shareholders' agreement, although they have the right to do so.

## 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, stock options and income taxes.

The Company has included in its 2012 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 2013.

### Pension Accounting

Net pension expense totaled approximately \$279 million for International Paper's U.S. plans for the six months ended June 30, 2013, or about \$109 million more than the pension expense for the first six months of 2012. The increase in U.S. plan expense was principally due to a decrease in the assumed discount rate to 4.10% in 2013 from 5.10% in 2012 and higher amortization of unrecognized actuarial losses. Net pension expense for non-U.S. plans was about \$2 million and \$1 million for the first six months of 2013 and 2012, respectively.

After consultation with our actuaries, International Paper determines key actuarial assumptions on December 31 of each year that are used to calculate liability information as of that date and pension expense for the following year. Key assumptions affecting pension expense include the discount rate, the expected long-term rate of return on plan assets, the projected rate of future compensation increases, and various demographic assumptions including expected mortality. The discount rate assumption is determined based on approximately 500 Aa-rated bonds appropriate to provide the projected benefit payments of the plan. A bond portfolio is selected and a single rate is determined that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The expected long-term rate of return on plan assets is based on projected rates of return for current and planned asset classes in the plan's investment portfolio. At June 30, 2013, the market value of plan assets for International Paper's U.S. plans totaled approximately \$10.0 billion, consisting of approximately 48% equity securities, 32% fixed income securities, and 20% real estate and other assets. Plan assets did not include International Paper common stock.

The Company's funding policy for its qualified pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plans, tax deductibility, the cash flow generated by the Company, and other factors. The Company made a \$31 million contribution to the Pension Plan in the second quarter of 2013. The Company continually reassesses the amount and timing of any discretionary contributions and could elect to make an additional contribution in 2013. The U.S. nonqualified plans are only funded to the extent of benefits paid which are expected to be \$33 million in 2013.

## FORWARD-LOOKING STATEMENTS

Certain statements in this report 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," "appear," "project," "estimate," "intend," similar nature. These statements are not guarantees of future performance and reflect management's current views with

respect to future events, which are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include but are not limited to: (i) the level of our indebtedness and increases in interest rates; (ii) industry conditions, including but not limited to changes in the cost or availability of raw materials, energy and transportation costs, competition we face, cyclicity and changes in consumer preferences, demand and pricing for our products; (iii) global economic conditions and political changes, including but not limited to the impairment of financial institutions, changes in currency exchange rates, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation, changes in tax laws and pension

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and health care costs; (iv) unanticipated expenditures related to the cost of compliance with existing and new environmental and other governmental regulations and to actual or potential litigation; (v) whether we experience a material disruption at one of our manufacturing facilities; (vi) risks inherent in conducting business through a joint venture; (vii) our ability to reach a definitive agreement on a mutually acceptable transaction combining xpedx with Unisource, the receipt of governmental and other approvals and favorable rulings associated with such a transaction and the successful fulfillment or waiver of all other closing conditions for such a transaction without unexpected delays or conditions, and the successful closing of such transaction within the estimated timeframe; (viii) our ability to achieve the benefits we expect from all other strategic acquisitions, divestitures and restructurings; and (ix) 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 (“Risk Factors”) of Part I of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012. 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 41 and 42 of International Paper's 2012 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, 2012.

**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, 2013 (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, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During the first quarter of 2012, the Company completed the acquisition of Temple-Inland, Inc. (Temple-Inland). Integration activities, including a preliminary assessment of internal controls over financial reporting, are currently in process. The initial annual assessment of internal controls over financial reporting for Temple-Inland will be conducted over the course of our 2013 assessment cycle.

During the first quarter of 2013, the Company completed the acquisitions of Olmuksan and Orsa IP. Integration activities, including a preliminary assessment of internal controls over financial reporting, are currently in process. The initial annual assessment of internal controls over financial reporting for Olmuksan and Orsa IP will be conducted over the course of our 2014 assessment cycle.

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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 12 to the financial statements in this Form 10-Q.

## ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 in response to Part I, Item 1A of Form 10-K.

## 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<br>Shares Purchased<br>(a) | Average Price<br>Paid per Share | Total Number of<br>Shares Purchased<br>as Part of a<br>Publicly<br>Announced Plan<br>or Program | Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs |
|------------------------------|--------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| May 1, 2013 - May 31, 2013   | 1,447                                      | \$46.67                         | N/A                                                                                             | N/A                                                                                                                               |
| June 1, 2013 - June 30, 2013 | 1,889                                      | 44.32                           | N/A                                                                                             | N/A                                                                                                                               |
| Total                        | 3,336                                      |                                 |                                                                                                 |                                                                                                                                   |

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

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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 7, 2013

By /s/ Carol L. Roberts  
Carol L. Roberts  
Senior Vice President and Chief  
Financial Officer

August 7, 2013

By /s/ Terri L. Herrington  
Terri L. Herrington  
Vice President – Finance and Controller